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Chair International Economics

On the Effects of Economic Sanctions: the Russian case

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Introduction

The annexation of Crimea by the Russian Federation, in March 2014, opened a series of crisis: Firstly, an ongoing conflict between Russia and Ukraine over border areas, and secondly, a deterioration in political and economic terms between Russia and the International Community, in particular with the United States of America and the European Union.

Indeed, the illegal incorporation of the Crimean Peninsula brought the Western world to adopt a restrictive measures regime against Moscow. In response, the Kremlin worked in order to establish its own retaliations.

The thesis will concentrate mainly on the European restrictive measures, focusing on the consequences derived by the crisis. I decided to concentrate the work on the EU sanctions, excluding the US ones, because the Union largely depends on Russia for the supply of oil and gas. Hence, decisions on the content of sanctions had to take into account further possible negative developments in this sector.

On the issue, the then President of the European Council, Herman van Rompuy, said in March 2014 '*Sanctions are not a question of retaliation, they are a policy tool. Not a goal in themselves, but a means to an end. Our goal is to stop Russian action against Ukraine, to restore Ukraine's sovereignty – and to achieve this we need a negotiated solution'*.

The debate on the effectiveness of sanctions is long lasting and controversial. As underlined by many studies, first and foremost the one proposed by Belin and Hanousek (2019), it is a field of difficult access to empirical scrutiny due to the scarcity of natural experiments on the issue. The sanctioning regime introduced both by the Atlantic coalition and Russia, represents an opportunity in assessing the effectiveness of sanctions. As a matter of fact, a natural experiment can be applied in order to investigate on the effects of these policies.

I will try to contribute to the debate on sanctions' efficacy providing an estimation, based on a Difference-in-Differences model, that will evaluate the possibility to establish a correlation between the decline in exports of specific commodities from the European Union towards Russia and the introduction of sanctions.

Before presenting the structure of the thesis it is of prime importance to explain the research question: Have European sanctions impacted exports to Russia? The aim of the thesis is, indeed, to assess whether Moscow suffered from the imposition of the restrictive measures by the European Union. Politically speaking, sanctions towards Russia have been usually used by Member States political forces in order to discredit European institutions. However, the analysis

proposed will explain that even if it is true that EU exports towards Russia declined from 2014, nonetheless, the decline was a consequence of the introduction of sanctions. Indeed, the reduction was caused by other factors, mainly the economic crisis connected to the decrease in oil prices that led to a strong devaluation of the rouble, experienced by Moscow in the same year sanctions were introduced. It will be possible to reach this conclusion after having applied a Difference in Differences model, estimating a regression that will investigate the correlation between the value of exports of 25 commodities, sanctioned and non-sanctioned, considered as perfect substitutes, in a period of time between 2012 and 2018.

The thesis will be dived in three chapters: In the first chapter, a review of the Russian and Ukrainian economy will be presented. The analysis of the Russian economic system is essential to underline the clear reliance Russia has on revenues from its oil and gas sector. The strong dependency makes Russian economy vulnerable to any change in the oil and gas prices, as it was the case in 2014 when the price dropped, and the country went into recession. Moreover, it will also clarify the logic that led the sanctioning process. The first chapter already provides a general and vague response to the research question. Indeed, data concerning international trade with Russia are provided. Coherently with a strong strand of the literature, it is underlined that the major factors causing the decline in trade with Russia must be found in the fall of oil prices and the devaluation of the Rouble (Kupper, 2018; Dreger et al., 2016; Ahn and Ludema, 2016; Crozet and Hinz, 2016).

The last paragraph of the chapter provides in a similar way an overview of the Ukrainian economy. Ukraine has always been allied with Russia. It will be argued that the economic relations with the Kremlin are vital for the country. Underlining this dependency is crucial to deeply understand the geopolitical dynamics that drove Russia's behaviour.

The second section offers an analysis from a geopolitical perspective: Events and dynamics of the crisis will be scrutinized. It will be argued that the Russian Federation and Ukraine share common ancient roots, and to some extent, this relation is crucial and unavoidable for each of the two countries.

Historically, it is fundamental to recognize that the Crimean Peninsula was part of Russia until 1954, year in which Nikita Khrushchev transferred it to Ukraine, as a gift.

Culturally, according to the 2001 census (the last census available) the Peninsula is mostly populated by Russians (58%). However, it is simultaneously important to notice that President Putin decided to annex Crimea in the exact moment Ukraine was starting its process of integration

with the European Union. Hence, it would be misleading to think that the Kremlin acted just in the name of the cultural proximity to Crimea: Other, more important, factors have played a major role. The chapter will then focus on the restrictive measures adopted by the European Union and the Russian Federation. At the end of these two paragraphs, it will be clear why the European Union decided to ban mainly exports of dual-use items, while Russia sanctioned imports of foodstuff and dairy products. As it will be explained in chapter three, part of the literature sustains that the application of sanctions could lead the target country to develop its internal markets due to a reduction of internal competition. Russia, indeed, combined import restrictions with an import substitution plan to favour its domestic industries in the categories above mentioned. The second chapter, hence, concludes with a brief analysis of the Import Substitution Plan promoted by the Kremlin. It shows that internal goods benefited from a slice of the market that was earlier occupied by foreign products. Even though it is difficult to truly establish if the Plan can be considered successful, it represents a first step in the development of industries principally in the agricultural -food sectors.

Finally, the last chapter proposes an insight on the legal framework for the adoption of restrictive measure by the European Union and a review of the literature on sanctions to conclude with the empirical analysis.

Considering the EU legal framework, the literature has not found an agreement over when the EU power to impose sanctions has begun. From 1957, Member States tried to coordinate in the foreign policy field in order to gain in efficacy. However, as demonstrated by the Rhodesian case, a common strategy was not easily found.

Moreover, in the first period, the EU was just implementing sanctions adopted by the United Nations, lacking an internal communitarian method to act independently.

Attempts to codify an own procedure already arrived during the ’70. Nevertheless, as the process was smooth and cautious, results in coordination were reached only during the ’80. Finally, with the division in pillars provided by the Treaty on European Union (Maastricht Treaty), an independent sanctioning regime was codified, belonging to the second pillar, Common Foreign and Security Policy (CFSP).

The second part of the chapter deals with the review of the vast literature on sanctions. It seems correct to affirm that if the success of sanctions is defined as the change in behaviour of the target country, then, the literature does mostly agree in assessing that sanctions are ineffective (Hufbauer et al., 2007; Pape,1997). However, as it will be explained later, other factors play a relevant role in deciding to adopt sanctions.

Part of the literature, in line with the masterpiece by Galtung (1967), instead, introduced the concept of *vulnerability* in evaluating the effects of sanctions. A country's level of vulnerability depends on the degree of concentration of the economy: Its reliance on one product, the concentration of products exported, and the concentration of trade-partners.

Finally, the analysis carried out in this thesis will not look at the compliance of the target country neither in terms of changing behaviour nor in relation to vulnerability: It will look at the effects of the restrictive measures on changes in the value of exports from France, Germany and Italy towards the Russian Federation.

Indeed, in the last part, an empirical analysis will be presented. Following the Difference-in-differences model it will be possible to evaluate the effects of the policy (the application of sanctions) on a dataset composed by observations from 2012 to 2018 of 25 commodities, subjected and non-subjected to the policy, that can be defined as substitutes.

The statistical model identifies as null hypothesis, H_0, the influence of sanctions in the level of exports. While H_1, the alternative hypothesis, determines that no correlation between sanctions and exports occurred. From the estimation it is possible to conclude that the observer is not significant, hence, the null hypothesis can be rejected in favour of the alternative hypothesis that confirms the uncorrelation of sanctions with the decline in exports to Russia.

All the data directly used or derived come from the United Nations Comtrade Database, the World Bank Database, Trade Economics and The Observatory of Economic Complexity.

1. Russian and Ukrainian Economies. From 1991 to date

This first chapter of the present thesis aims at giving an overview of the causes and the consequences of the Ukrainian crisis from an economic perspective.

Since sanctions were adopted in 2014 from both, the European Union and Russian Federation, it is necessary to see which was the logic that led the process, conducing the two parts in banning different categories of goods. Indeed, as it will be deeply explained in chapter two, EU's economic sanctions concern mainly dual use items and have been classified providing 8 digits following the Harmonized System (HS) classification. Whereas, Russian Federation banned principally food and dairy products, presenting a list categorized at the 4^{th} digit. It implies that the countersanctions cover larger categories of goods with respect to the European sanctions, giving race to different effects.

The analysis given in the next chapters shall be interpreted in the light of this distinction.

I will proceed giving a general overview of the characteristics of the Russian economy. The investigation will be useful to explain why the European Union decided to ban certain kind of products and why Russia established an import ban on other categories. Moreover, the analysis shows the dependency of the Russian economy on natural resources: This reliance largely explains the crisis experienced by the country from 2014. It is strongly connected to the devaluation of the Rouble due to the decrease of oil prices. Consequently, the reduction of the terms of trade between the EU and Russia is not mainly a repercussion of sanctions, but it is also strongly connected with the crisis. Indeed, in 2014, not only Moscow was subjected to the imposition of sanctions, it was also affected by an oil and gas crisis that caused the total decline of the country.

Finally, the last part of the chapter will provide general data showing the exchange between the European Union and Russia. Data show a decline in the terms of trade in 2014, as expected. However, in 2017 it increases, even though sanctions were still applied. I will argue that this change of trajectory was possible because of the improved economic conditions of the country that started its recovery between 2016 and 2017.

I will then move to analyse the Ukrainian economy, underlining how the 2014 crisis affected both the political and the economic sphere. Ukraine has always been allied with Russia, the economic relations with the Kremlin are vital for the country. Underlining this dependency is crucial to deeply understand the geopolitical dynamics explained in chapter 2. All the data directly used or

derived come from the United Nations Comtrade Database, the World Bank Database, Trade Economics and The Observatory of Economic Complexity.

1.1 Russian Economy: Characteristics.

Here I provide a general overview of the Russian economy covering the last 30 years and looking, likewise, at the economic relations with Ukraine. I will start giving an overview of the consequences of the collapse of the Soviet Union, then I will move to investigate the economic characteristics of the subsequent decades. This analysis aims at supporting the thesis that Russian economy strongly relies on oil and gas exports. Hence, the decrease of the price of a barrel, that caused a depreciation of the Rouble causing the 2014 crisis, is the main factor in determining the decline in the terms of trade between the Union and Russia. Indeed, it will be argued that sanctions (those imposed by the EU) had a modest impact on the reduction of the interchange between the two actors.

The last part of the chapter will draw a general framework of the Ukrainian economy starting from the dissolution of the Soviet Union. The study will be useful to qualify and quantify the deep relations that exist between the two countries.

The collapse of the Soviet Union. The economic consequences

I decided to start analysing the Russian economy from 1991 because from the shock provoked by the collapse of the Soviet Union, the establishment tried to rebuild a new economic order. Hence, to further understand the framework in which the Russian economy develops, it is useful to briefly summarize what happened after the dissolution of the USSR and which were the measures adopted to guide the process from a planned economy to a capitalistic one.

The end of the USSR marked the beginning of a process of transformation that converted a planned economy into a capitalistic one, introducing the rules of the free market. The process did not occur swiftly nor softly, the so-called shock therapy adopted by President Yeltsin had a strong negative impact on the economy: The ruling class was persuaded by the belief that the economy was in such a terrible turmoil that "*a radical, comprehensive, liberal program would be needed to introduce any kind of rational order"* (Aslund, 1995).

The GDP, from 1991 to 1998, dramatically collapsed and inflation rose to unsustainable levels. As shown in Figure 1 inflation in 1992 rose to 1400 and only after 1997 the currency started to become more stable. Figure 1 provides, as well, the performance of the GDP between 1991 and

1998. The gross domestic production in 1992 was alarmingly -14 and it reached a positive level, alarmingly, only in 1997.

The state completely failed in the creation of an efficient private sector: A small part of the population, tied to President Yeltsin, managed to obtain shares of the major lucrative firms and oil companies at a fraction of their market value.

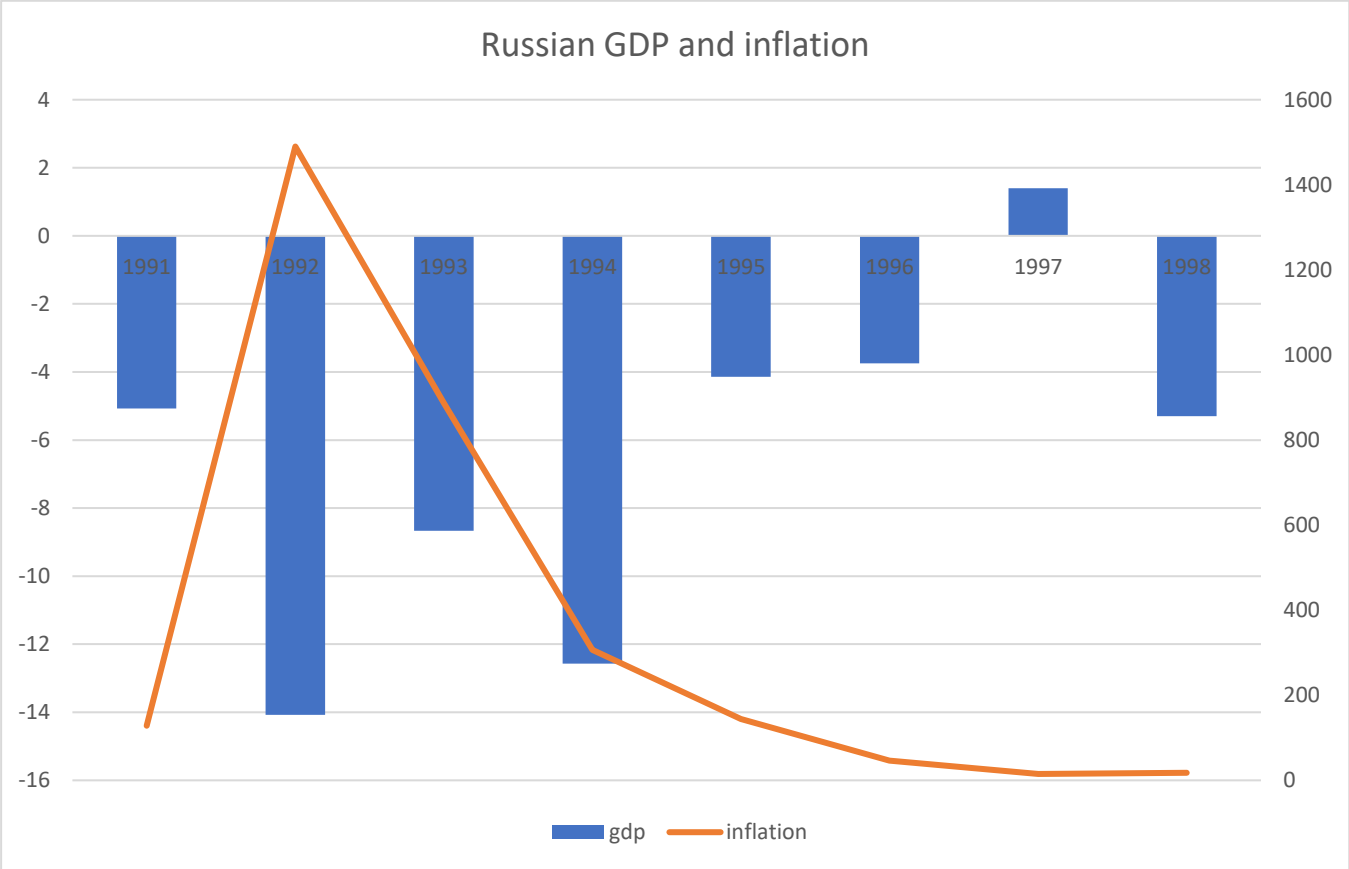

Figure 1- Russian GDP and Inflation 1991-98
Source: World Bank Data

In these years an oligarchic class was shaping, giving birth to what is defined as "oligarchic capitalism" [1] (Braguinsky, 2009).

The inadequacy of the reforms culminated in the economic crisis of 1998. The primary cause of the crisis was the inability of the government to continue in keeping the Rouble and inflation stable with huge budget deficits. The vulnerability of the country partly derived from the fact that, in that year, world oil prices and other commodities from which Russia depended significantly for its foreign currency earnings sank. In addition, the Asian crisis made investors unwilling to hold risky assets such as the ones from the government short-term debt. "*But Russia became vulnerable*

[1] Oligarchic capitalism: De facto political and social control by the fewer (Gramm, 1980)

because of more fundamental problems associated with its economic policy and economic structure. These included the failure to institute tax reform, property rights, and bankruptcy laws and procedures." (Cooper, 2009).

Hence, the first economic crisis experienced by the country was a consequence of unsuccessful reforms combined to a decrease in world oil prices.

From 1999 to 2008, economic growth

The 1998 crisis, combined to President Yeltsin's bad health conditions, opened the way to Mr. Putin that eventually became president at the end of 1999. The following ten years saw a period of economic growth that led the country to reach a considerable level of stability.

In 1999 the real GDP growth equalled 6,4% while the inflation rate was at unsustainable levels, around 80%. As shown by Figure 2, the main economic indicators experienced a recovery until 2008: The consumer price index (CPI) declined from 80% in 1999 to 20% the following year, stabilizing at around 10% in the next years. However, even if it was no longer critical, it was still high: In the 2007/2008 period CPI rose from 9.0% to 14.1%. Average real wages constantly increased. From 1999 to 2008 they rose by 10%, leading to an increment in the real personal disposable income.

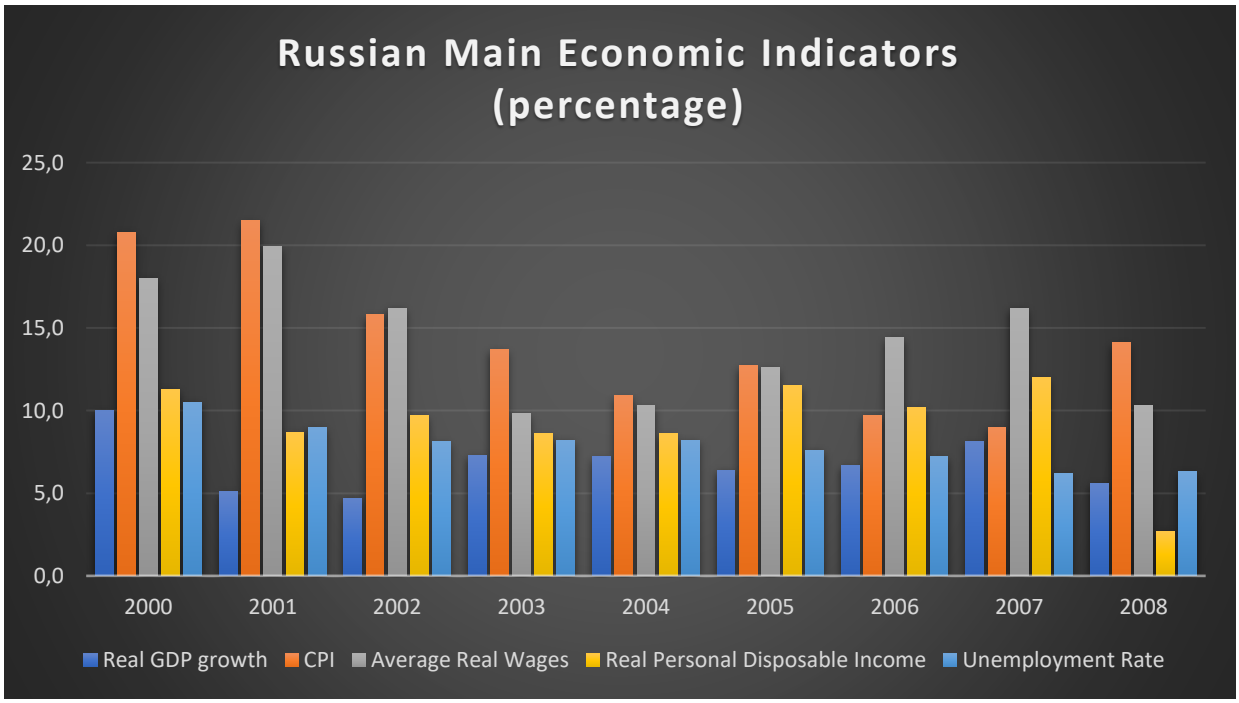

Figure 2- Main Russian Economic Indicators, 2000-2008. (% of growth from the year before)
Source: World Bank Data

Lastly, the unemployment rate halved: In 1999 it was equal to 12,6%, ten years later its value stood at a level around 6%. Real wage and income almost tripled from mid-2000 to mid-2008: Rosstat data indicate that the economy-wide average wage rose from about 6,700 Roubles per month in the second quarter of 2000 to over 19,000 in the second quarter of 2008.

In 1999 the output started to growth, real GDP increased on average by 6.9% in the 1999-2008-decade, *"2007 saw Russia ranked in the top 10 largest economies with a GDP that equalled $1.29 trillion.*

Growth was boosted thanks to a context of strong energy prices, substantial capital inflows and a rapid expansion of domestic demand." (Cooper, 2009).

The GDP composition by sector shaped as follow: Agriculture represented the 3,9%, the industrial sector the 31,2%, and services constituted the 50,7%. The causes of economic growth in the decade 1999-2008 can be attributed to the increase in international trade: Exports grew close to 525% and imports close to 640%. The current account balance strongly increased (from $24.6 billion in 1999 to $102.3 billion in 2008) giving the country the occasion to accumulate huge foreign reserve holdings that have risen from $12.5 billion in 1999 to $427.1 billion at the end of 2008 (Russian Customs Service data).

According to the 2008 Economist Intelligence Unit (EIU) Country Report, the energy exports sharply increased in the decade considered, rising from 37% of total exports in 1998 to 61% in 2007. Oil, natural gas and refined-oil products represented the two-thirds of total exports. Both the volume of export and the oil and gas prices rose in this decade.

Revenues from this sector are of key importance for the government: The Ministry of Finance calculated that in 2006 revenues from oil and gas equalled 3.1 trillion Roubles (about $115 billion), an amount equal to half of all federal government revenues. Increased oil and gas prices in the export market had a major role in boosting government revenues. Russia benefited from increased revenues from oil and gas exports as export prices have risen more rapidly than the prices Russia payed for its imports.

This improvement in Russia's terms of trade had been a major factor in the real effective appreciation of the Russian Rouble. In 2006, the oil and gas sector accounted for half of federal government revenues and over one-third of consolidated government revenues. Nevertheless, those incomes were allocated in part in the Stabilization Fund and in part used to invest in the US Treasury, thus, not used to directly boost economic growth.

Figure 3- Russian GDP- annual growth (%)
Source: World Bank Data

However, those reserves played a major role in helping the economy not to completely collapse in the 2008 crisis (Oliker, Crane, Schwartz, Yusupov, 2009). Up to this point, the reliance of the Russian economy on the energy sector cannot be denied. The increased economic conditions of the country merely relied on the improved conditions in the oil and gas market.

In 2008 the most important trading partner for Russia was the European Union: The 53% of Russian exports were destinated to the EU market, meanwhile the 45% of Moscow's imports came from European countries. Worth of mention that in 2008 Russian trade with China were at a low level: Exports represented the 6% and imports the 14%. Trade with China significantly increased due to geopolitical dynamics thereafter.

Imports from 2000 to 2008 saw a constant growth, from 25,12% to 30,13%. Imports of food and agriculture products rose from around 6% in 2000 to more than 30% in 2008. This increase was a good confirmation for the period of wellness that the country was experiencing. As the GDP of the country was rising, it led to higher consumer demand both for domestic and foreign products. Moreover, the country had higher inflation than its main trading partners, hence, external products became more price-competitive than domestic ones, boosting Russian demand for foreign goods. For agriculture and foodstuff, the European Union accounted for Russian main trading partner: Animal, vegetable products and food represented in 2006 the 16% of total imports (Makeeva and Chaplygina, 2008). Machinery and equipment represented the major sector in imports, constituting the 48% of the total. Imports in this sector also grew in the considered decade, showing that the Russian economy exchanged its mineral resources for equipment and machineries. A change in Russian trading partners occurred in these years: Moscow started to import more from non-

Commonwealth of Independent States (CIS) countries due to their higher quality and longer lasting goods.

Notwithstanding the favourable conditions in this period, Russia had still to face some difficulties. Life expectancy started to become a worrying problem: Women lived on average 73 years while men 60. Alcoholism remained a social evil.

If we look at the Gini coefficient[2], it grew from the post-soviet period to the decade considered: "*In 1992, Russia's Gini-coefficient was 0.289. By 2007, it had increased to 0.422*" (Cooper,2009). Hence, although the decade is seen as a period of economic prosperity and development, one must bear in mind that some of the social plagues of those years could not be eradicated and are still affecting the country nowadays.

From the Great Recession to 2014

The decade of growth that the Russian economy experienced before 2008 came to an end with the World financial crisis: As all the world economies, the 2008 crisis strongly hit the country, signing the beginning of the Great Recession.

If, on one hand, the economy was better prepared than other economies because of its strong short-term macroeconomic fundamentals, on the other, high dependence on the price of a single commodity makes its impact more pronounced than otherwise. Furthermore, conditions were aggravated by the conflict with Georgia for the territories of Abkhazia and South Ossetia, started in the same year. The 2008 crisis brought to light three structural weaknesses of Russian economy: "*The substantial dependence on oil and gas sales for export revenues and government revenues, a decline in investors' confidence in the Russian economy and a weak banking system.*" (Cooper, 2009).

According to the 2008 World Bank Report on Russian Federation, the World financial crisis affected the country's economy by transferring four major external shocks: Firstly, capital flows fled. Secondly, the banking system had to face its own liquidity problems against short-term external repayment obligations. The fiscal and external account surpluses and the international reserve buffer started to be eroded by the sharp decline in oil prices: The price for a barrel decreased by 70% in 2008. Lastly, the stock market deteriorated mainly as a consequence of the drop in oil prices and the general loss of confidence.

[2] the index used to measure the level of inequality of a country looking at the income distribution (its scale goes from 0, representing the situation of perfect equality in income distribution, to 1 that corresponds to totally inequality)

Looking at figure 4, it is possible to see that when the crisis reached the country, growth completely ceased: In particular, the GDP and the industrial output dramatically declined. Inflation, thanks to the Central Bank intervention, eventually decreased to a stable level around 12% but from 2007 to 2008 the CPI grew from 11.9% to 13.3% due to tighter credit, collapsing global demand and huge global uncertainty. the unemployment rate sharply increased, from 6,4% in the first quarter of 2008 to 10% in the same quarter of 2009 damaging both investment and consumption growth.

Nevertheless, even if the country was drifting, recovery occurred quite rapidly. Showed in figure 5, the GDP growth from 2007 to 2008 collapsed by 3.3%, and it shrank to -7.8% in the following year.

However, in 2010 a recovery started with a gross domestic production growth of 4.5% and already in the following year the country reached its pre-crisis level.

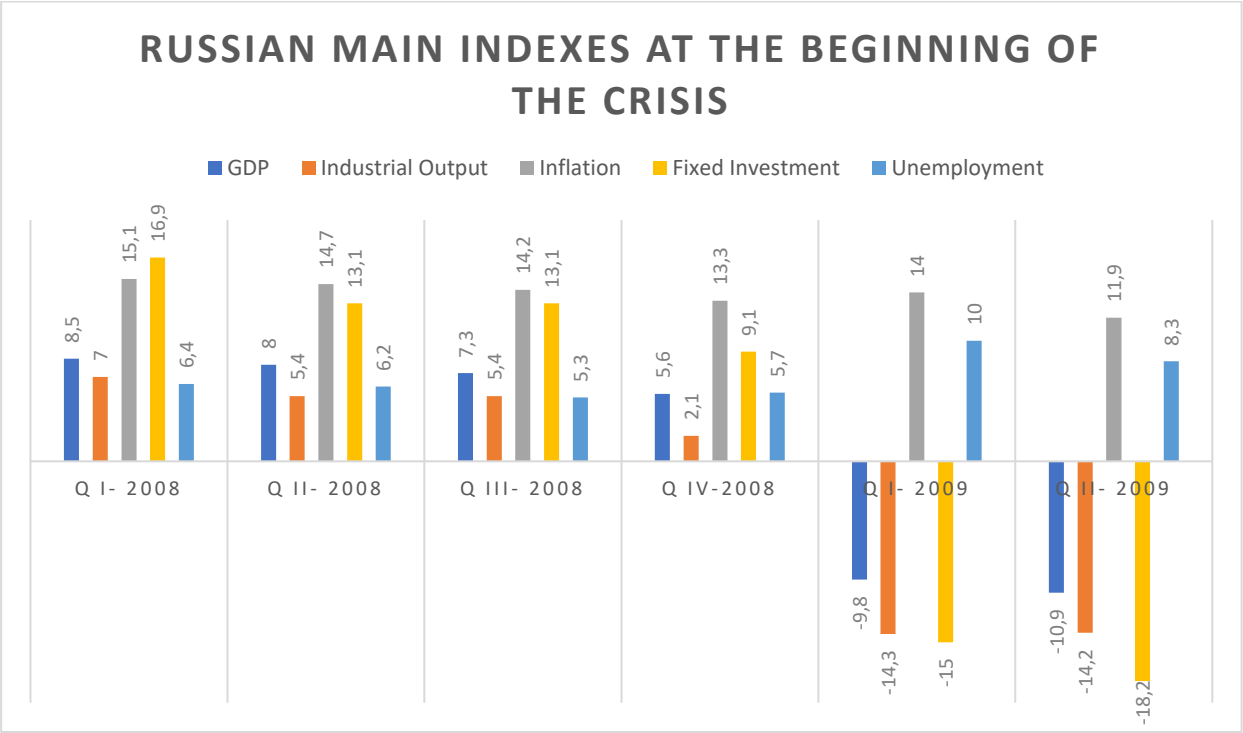

Figure 4- Russian main indicators 2008-2009
Source: World Bank Data

In the 2010-2013 period GDP remained mostly stable, until the arrival of 2014. Russian inflation rate, from the collapse of the Soviet Union until 2008, saw three main peaks, the first in 1992, the second in 1998 and the third in 2008, reaching a level of 14%. The large amount of reserves accumulated in the 2000-2008 period rendered possible to stabilize inflation between 2010 and 2013 at a level around 6%.

Besides previous economic stability, the lack of exposure to the US sub-prime crisis protected the country by limiting the effects of the world financial crisis: "*It is now clear that if Russia had not entered the current global financial crisis with such a strong fiscal surplus and large resources accumulated in the stabilization funds and foreign reserves, the impact of the crisis would have been much quicker and more severe than is currently the case.*" (World Bank, 2008).

Imports represented evidence of the economic improvement from 2010. Whereas after the 1998 crisis it took five years for imports to regain their pre-crisis level, after the World financial crisis it took only one and a half years, falling to 15 per cent in mid-2009 but recovering by autumn 2010.

The crisis hit the country by affecting export prices, that dropped consistently not only in the oil and gas sector but also in the constructions sector. Exports were damaged, causing a decline in the volume.

Figure 5- Russian GDP- annual growth (%) and CPI
Source: World Bank Data

Exports "*decreased from $45B in Jan 2008 to $20B in Jan 2009. From 2010 till December 2013 exports had managed to not only stabilize but also to reach a maximum of almost $50B in December 2011 and December 2013."* (Osadta, 2017).

In addition, the country saw a withdrawal of capital: During the crisis investors gave priority to their own national balances provoking a diminishing in capital flow. However, since the country could benefit from considerable reserves accumulated before 2008 and from a macroeconomic

stability (low debt and profitable budget), the real consequences of the crisis exacerbated in 2014–2015. The Kremlin opted to an unsuggested policy to counteract the crisis: Moscow decided not to devaluate the Rouble at once, but to use the so-called stepwise devaluation (Sutela, 2010). That meant that the rouble was depreciated in more steps. The idea was that the one-off devaluation could have led to difficulties in forecasting the reaction of the public, while the stepwise devaluation would have kept the stability of the currency.

2014 crisis up to today

Russian economy was able to react to the World financial crisis and recovered quickly. Indeed, by 2013 the major economic indexes showed positive signals of revival.

However, 2014 stood as a step backward: The country was again experiencing a financial crisis. The oil prices were quickly declining causing a strong depreciation of the Rouble: The exchange rate for one unit of dollar or euro soared to 80 to 100 Roubles. In fact, "*between mid-2014 and early-2016, crude oil prices have fallen from a high of around $100 per barrel to about $30 per barrel, cutting deep into the country's major source of revenue*." (J. Kuepper, 2018).

Moreover, the adoption of sanctions caused a consistent capital flight from the country, investment and lending to Russia dried up. The oil price decline combined to capital flight led the Rouble to strongly depreciate vis-à-vis the US Dollar: If, in January 2014 one US Dollar was exchanged for 34 roubles, by December of the same year, one USD corresponded to 80 roubles. Russian Central Bank responded by increasing the lending rate from 10 to 15% on the off chance that higher interest rates would attract funds to the Russian financial system, thus, increasing the demand for Rouble and therefore limiting the depreciation of the currency.

However, the depreciation led to higher inflation, that guided the increase in import prices: Demand was, thus, shifting from foreign to domestic products, causing an increment in domestic products price as well.

As stated in the Sanctions Guide of September 2017, written by the Macro Advisory, the report underlines that the Russian economy was already slowing in 2013 because the previous economic model, that was based on annually rising oil wealth and strongly performing constructions and financial sector, had started to be less of an effective driver of growth. In 2013 the economic growth was one-third of the 2011 one. In the fight against the crisis, the government undertook two main initiatives in order not to fall in a deep recession: Firstly, the Kremlin followed a strict spending discipline in the budget and, secondly, let the Rouble free float. As mentioned before, Russia could benefit from huge foreign currency reserves: The Central Bank could use those

reserves in order to sustain the Rouble from the complete collapse, however, inflation drastically increased in 2015 eroding real wages by 9,5%.

The path to promote growth has been taken, even if slowly: If we look at the GDP, after the collapse in 2015, the following years have seen a change of pace, leading the output annual growth to positive levels.

The TASS (Russian News Agency) declared that the GDP rose by 2,3%, reaching 1,6 trillion dollars in 2018. President Putin in this regard affirmed that "*The situation in the Russian economy is generally positive on key parameters*" (TASS, 2019).

The 2018 Russian Federation Report of the World Bank recognizes that the process of recovery started in 2016 is still ongoing and that the economy shows great signals of improvement: "*Output increased by 1.8 percent in 2017 on the back of robust domestic demand, but short of expectations. Inflation has fallen well below the Central Bank of Russia's 4 percent target since July 2017, driven by a weaker-than-expected recovery, tight monetary policy, as well as temporary effects on food and energy prices*" (World Bank, 2018).

According to the Macro- Advisory Report of 2019 Russia has the world's sixth lowest national debt and it is also in the six position for what concerns the largest financial reserves worldwide.

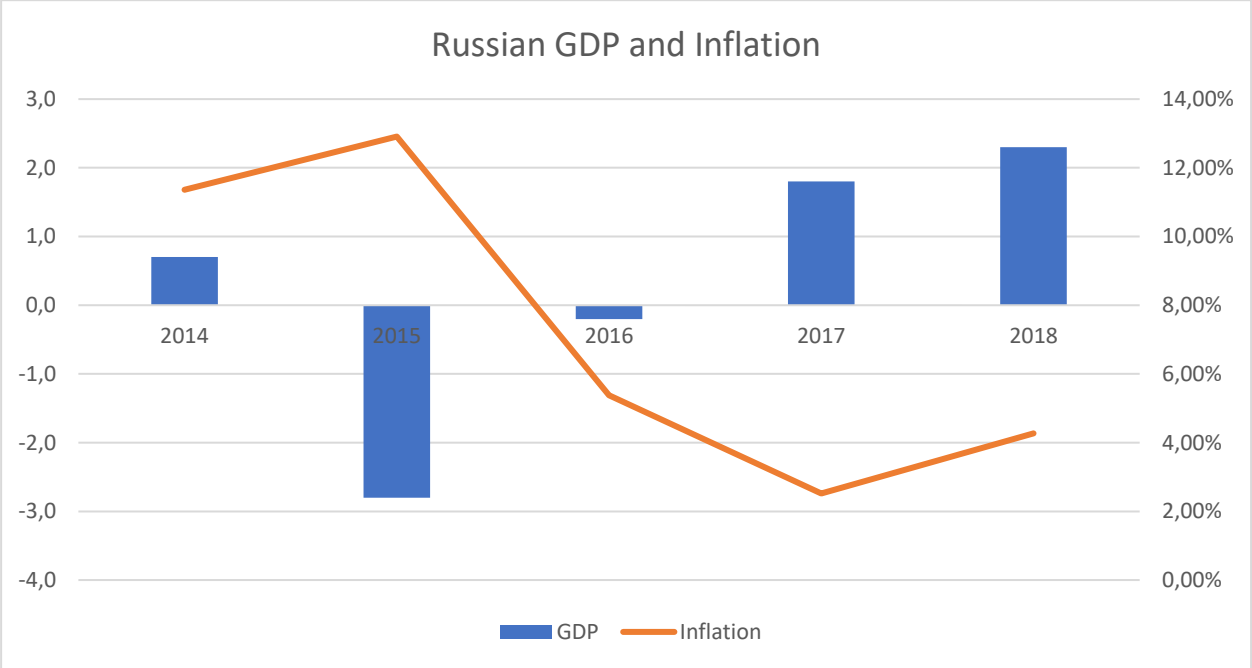

Figure 5- Russian GDP and Inflation, 2014-2018
Source of data: World Bank

In 2017, the Russian GDP is composed as follow: Agriculture sector 4.7%, industry 32.4% and services: 62.3%.

The anti-inflation policy adopted by the Bank of Russia led to great results: In 2014 the Bank announced the will to keep inflation at around 4%. Public opinion considered this goal as unaffordable, however they managed in achieving it.

Inflation stood at 2.5 percent at the end of 2017, way below the value (5.4 percent) seen in 2016. The Bank of Russia followed a tough monetary policy, that, coordinated with a Rouble appreciation and a good crop made possible to shape inflation reaching the goal**.** Annual inflation now stands at a record-low level, even below the CBR's target of 4%

As reported by the 2018 World Bank Annual Report on Russia, unemployment declined further in the beginning of 2018 to a current 5%, while real wages and pensions increased on the back of low inflation. In 2017, wage growth was highest in the tradable sectors and above the rate of inflation in the non-tradable and public sectors. The labour force participation and employment rates remained at high levels at the beginning of 2018, while unemployment was close to minimum.

In 2018, the country has firmly undertaken a process of growth, from 2015 the GDP has increased, driven by a stronger currency and a process of adaptation of the economy to relative low oil prices. As showed before, the 2014 depression was strongly connected to the crisis experienced in the oil market. As underlined for the 2008 World financial crisis, one more time the dependency on the oil and gas sector caused economic recession and complete stagnation. As the sector started to improve, better conditions occurred in the other fields as well. Hence, a positive correlation can be established between an increase in the oil and gas sector's revenues and economic growth. In support of my thesis, Russian economic dependency from the oil and gas exports will be evident. Indeed, they represent two thirds of the total exports of the country. For what concerns the relation with the EU, the European oil market is shaped in the following way: Germany and Italy are the largest importers of Russian gas in the European Union, and the two countries together represent almost half of the total EU gas imports from the Kremlin. In 2018, "*Italy has become Russia's second market, buying 18,3 billion cubic meters gas*" (Girardi, 2019). Despite economic improvement, further developments are still uncertain due to the continuous geopolitical tensions connected to the Ukrainian crisis.

The export sector saw a recovery from 2017. Indeed, after four years of decline, the value of exported goods rose by 25.3 percent in comparison to 2016, accounting to USD 353.1 billion. The amelioration was mainly driven by the increase price of hydrocarbons: The average contract price of crude oil rose in 2017 compared to 2016 by 27.7 percent, oil products - by 33.2 percent, and natural gas – by 15.3 percent. Furthermore, natural gas deliveries enlarged in volume, with a rise of 5.8 percent in relation to 2016. For instance, Gazprom, one of the main Russian companies in

the extraction and supply of oil and gas, saw in the last seven years an improvement in its gas exports. The shares of Gazprom in the European market rose by 34.0 percent. The 2014 crisis brought many changes also in non-energy sectors: The depreciation of the real effective exchange rate caused an increase in competitiveness of goods that led to growth of exports in those sectors. Throughout 2017, Russian foreign trade turnover demonstrated the ongoing since late 2016 upward trend. In 2017, it rose compared to 2016 by 24.8 percent to USD 590.9 billion.

In 2017, a robust external demand supported export growth. Exports grew by 5.1 percent, in real terms in 2017 compared to 3.3 percent in 2016. In 2017, the increasement in the export of goods was mainly fuelled by growing export of non-oil goods. Export of services also demonstrated robust growth (+14.4 percent), driven by an increase in export of transport services, business trips, construction, ICT and other business services. Imports as well increased by 17.4 percent, in real terms in 2017, and its negative contribution to GDP growth overweighed the positive contribution of exports. I will now proceed giving an overview of how the export and import markets shape. According to the data released by the Federal Customs Service of Russia, non-resource and non-energy Russian exports in 2017 hit USD 133.7 billion or 37.5 percent of the total exports volume (in 2016–38.3 percent). Compared to 2016, value volume of non-resource and non-energy exports rose by 22.5 percent. Maximum contribution to the increase of non-resource and non-energy exports was made by metal products (32.7 percent of total increase), food products (14.7 percent), engineering products (15.1 percent), chemical products (12.6 percent), precious metals and gems (8.6 percent), and pulp and paper products (8.1 percent).

To sum up, as the economy started its recover in 2016, reaching a stable level of growth in 2017, exports and imports increased even if sanctions were still applied. It implies that the economic conditions of the country, mainly its economic growth or decline and the Rouble's purchasing power, are the main characters in influencing trades.

The food export sector saw a considerable enlargement triggered by increased domestic production, favourable rouble exchange rate against the US dollar, as well as decline of the purchasing power of the population, which led to the contraction of domestic market of the majority of food products.

According to the Observatory of Economic Complexity the import market is characterized by the necessity to introduce in the country machineries and equipment: This sector represents the 48 percent of total imports. The second larger sector regards chemical products with a share of 19.2 percent. 2017, from the beginning of the sanctions war, sees imports on food growing in comparison to 2016 by 15.7 percent.

Figure 6- Top 5 partners in 2017, Russian exports in millions US$
Source of Data: UNCTAD Data

Belarus remains the main exporter in the foodstuff and agriculture sector, followed by Brazil and Ecuador. China is ranked fourth in the sector.

While the oil prices began to rise again, it was fundamental for the Russian economy to develop an import substitution plan in order to lighten its dependency from natural resources. President Putin had always tried to make Russia self-sufficient and the adoption of sanctions represented just an incentive to follow this path firmly: "*The weaker rouble, plus the counter-sanctions imposed by Russia in August 2014 to block the import of food from the EU and US and other sanctioning nations, helped cut imports and boost demand for available and competitive domestically produced goods.*" (Macro Advisory, 2017).

After the approval of the restrictive measures by the EU and the US, Russia responded with the ban of more than the 50% of dairy products, vegetable and fruit imports and in 2015 a Commission on Import Substitution was established.

The programme provided for more than 2 thousand projects in 19 economic sectors to be implemented between 2016 and 2020. The aim was to produce up to 800 selected products, the total cost of the programme was 35 billion EUR (about 3% of GDP). The programme was considered by Putin as a "temporary tool to adjust to the current situation", supporting the idea that Russian products should compete "not on our own, but on the world market" (Putin, 2015). Results did not take time to arrive: In 2017 Moscow was the largest exporter of wheat. Moreover,

the Deputy Trade & Industry Minister, Viktor Evtukhov, stated that Russia is 95-100% self-sufficient in the production of: Bread, milk, sugar, cereals, flour, poultry meat, fish, eggs and pasta (Sputnik, 2019).

Recalling the Macro- Advisory Report of 2019, food imports are consistently declining, in 2013 they accounted for 40bln US Dollars while in 2017 it amounted to 25bln US Dollars. In chapter 3 a deeper analysis of the Import Substitution Plan will be discussed: Part of the literature on sanctions explains that in imposing sanctions the target country could be able to circumvent them by developing internal industries.

1.2 Changes in trade after 2014

The last part of the paragraph will deal with data concerning the interchange and the Russian import of the sanctioned goods. From the graph it is possible to see how sanctions have impacted trades worldwide and between Russia and its main trade partners and how the situation has changed after 2014.

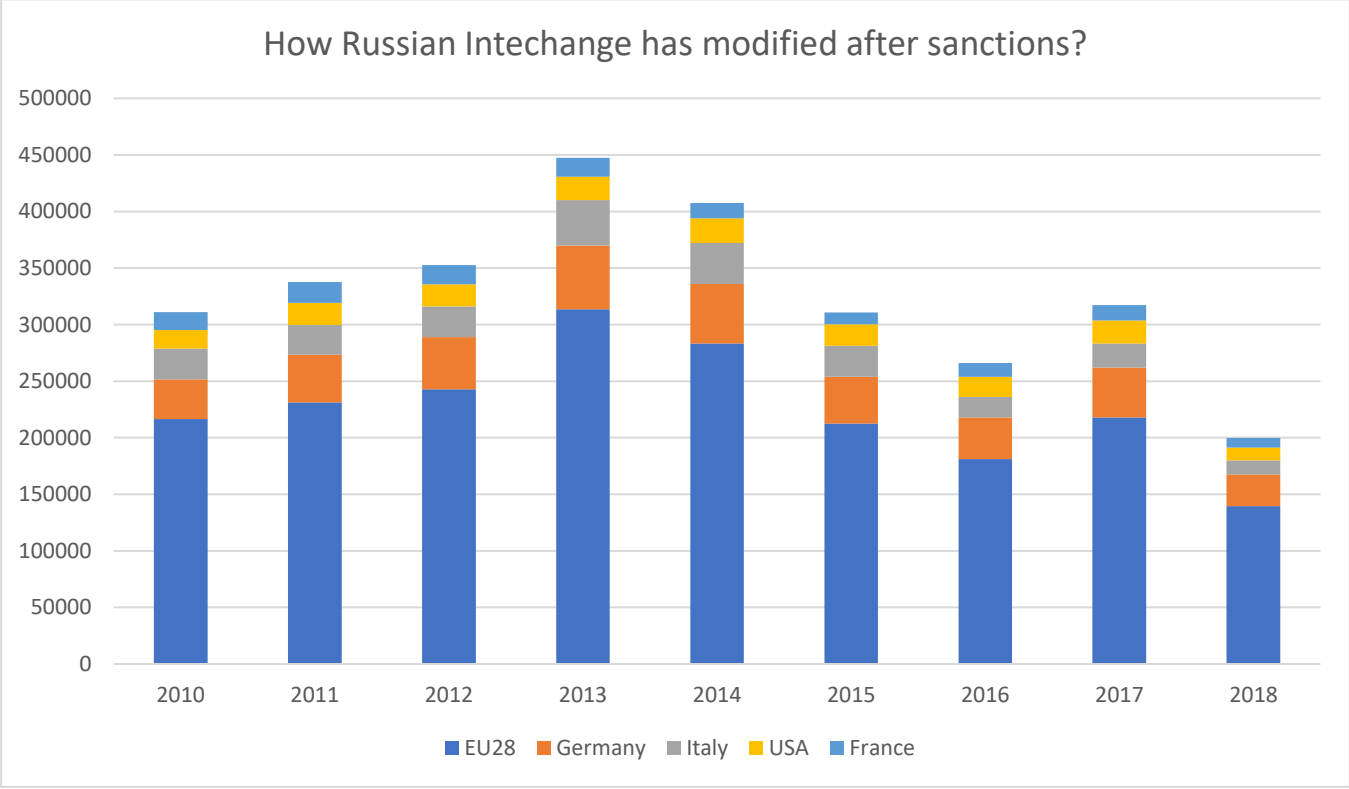

Figure 7- Russian Interchange in mln Euro

Source: UN Comtrade

From 2010 to 2014 the EU, as all its member states experienced a growth on exports to Russia. If we also look at the World trade it significantly increased in that period. As was expected, 2014 represents a turning point: Exports started to decline until 2017. The graph shows an interesting dynamic in 2017, in this year the trade volume increases for all the countries, even if sanctions are still applied.

How is it possible? The real capacity of Russia to import does not depend merely on sanctions and counter sanctions. If, on one hand, sanctions had an impact on the EU exports to the country. Nonetheless, two main factors signed the interchange decrease: The dramatic decline in oil prices in the second half of 2014 and the depreciation of the rouble. Indeed, as previously stated, in 2014 Russia was hit by an economic crisis: "*The collapse of the rouble was a culmination of its gradual depreciation in the preceding months, caused in large part by declining oil prices and the tensions between Russia and the West over Moscow's aggressive policy towards Ukraine. However, the Russian currency was also hit by a series of developments which destabilised the country's financial market.*" (Osw Report).

For what concerns the oil prices: "*Between mid-2014 and early-2016, crude oil prices have fallen from a high of around $100 per barrel to about $30 per barrel, cutting deep into the country's major source of revenue*." (J. Kuepper, 2018).

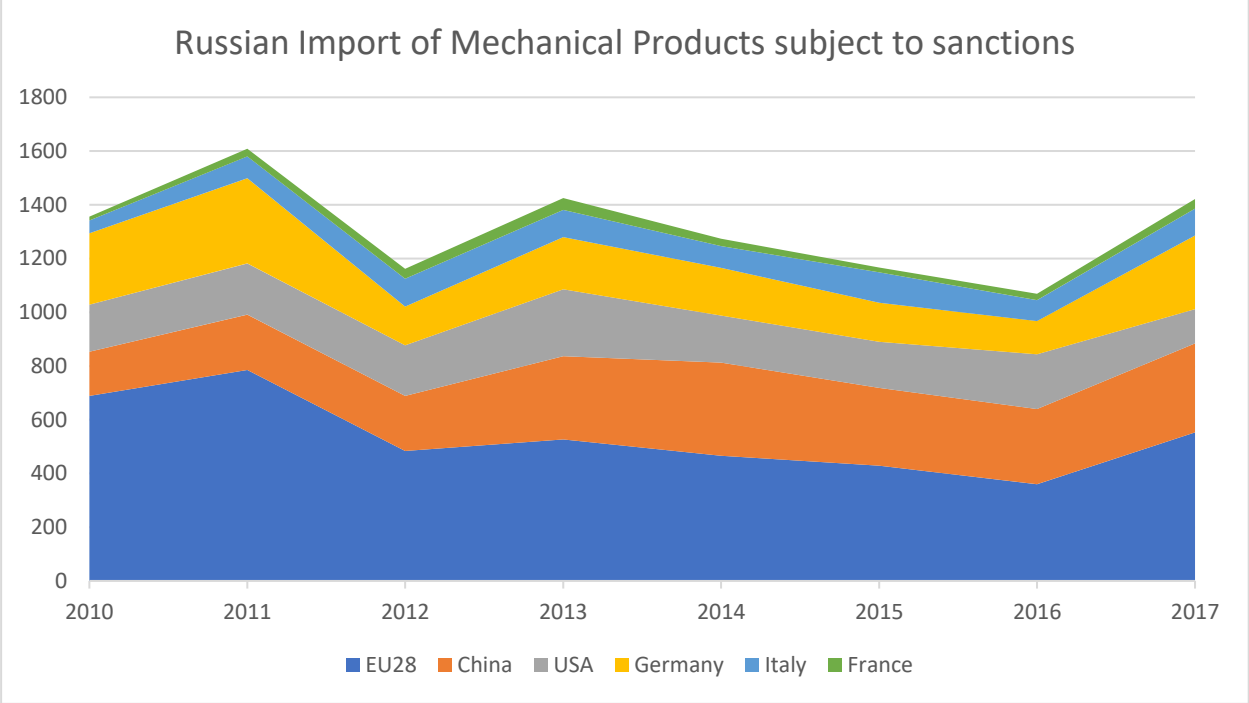

Figure 8- Russian import of mechanical products subject to sanctions
Source: UN Comtrade

Hence, the compression of revenues derived from this sector strongly affected the country, leading to a contraction of the demand of foreign goods due to not only a reduction of incomes but also to a loss in the purchase power.

In 2017, when the economy started its recovery and eventually reached a situation of stable growth, exports from the European countries started to increase as well.

"*The International Monetary Fund (IMF) estimates that the sanctions against Russia - which remained in place as of November 2017 - are costing the economy an inflation-adjusted 1.5 percent of GDP. While these figures may appear small on the surface, they are significant at a time when the economy is struggling to stay out of a recession."* (J.Kuepper, 2018).

Italy is one of the countries that suffered most from Russian sanctions. For what concerns dairy, fresh products, exports are completely blocked: Data from the Russian borders declare that in 2015 the total export in this sector was about 604 million euro, seeing a compression of 38% with respect to the precedent year.

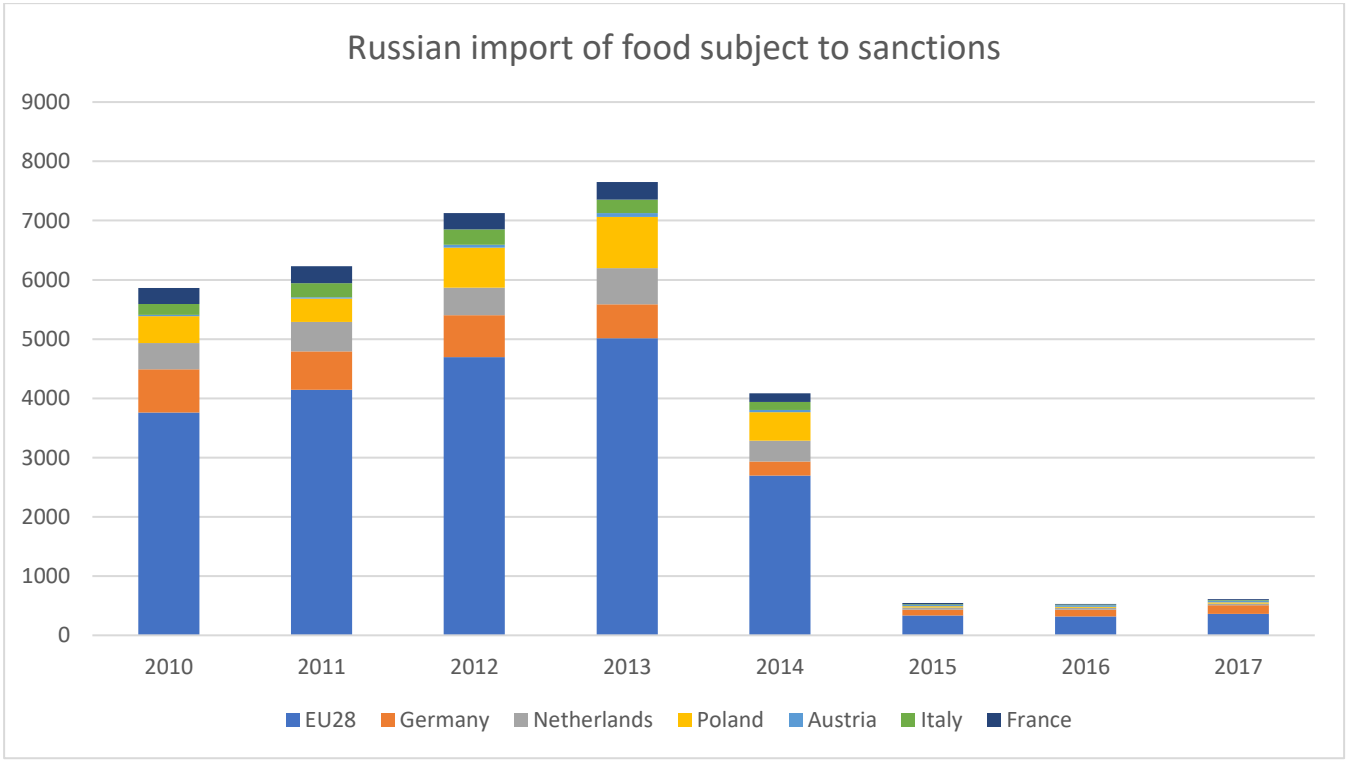

Figure 9- Russian import of food subject to sanctions, in millions of Euro
Source: UN Comtrade

"*The International Monetary Fund (IMF) estimates that the sanctions against Russia - which remained in place as of November 2017 - are costing the economy an inflation-adjusted 1.5 percent of GDP. While these figures may appear small on the surface, they are significant at a time when the economy is struggling to stay out of a recession."* (J.Kuepper, 2018).

Italy is one of the countries that suffered most from Russian sanctions. For what concerns dairy, fresh products, exports are completely blocked: Data from the Russian borders declare that in 2015 the total export in this sector was about 604 million euro, seeing a compression of 38% with respect to the precedent year. The ICE, in its analysis on the impact of sanctions of 2018 explains that losses are not just related to the export reduction, three other major damages can be underlined:

- Some of the products (mainly fruit and vegetables) exported to Russia passed through other EU countries, such as Germany or the Netherlands. Hence, it is possible that in the final estimation of the export loss these goods are not taking under consideration, lowering the final result
- The Italian industries working on the Russian territory in the sector, both with a distributing or production activity, have seen a strong downsizing of their income or, in same cases, had met difficulties in continuing the production
- The products that had Russia as final destination have been reverted in the European market, causing an excess in the supply, hence the possibility to cause a reduction of prices.

A series of fake brands have entered the Russian market, lowering the quality and the price, hence damaging the image of the "made in Italy". Moreover, even if this is not a short-term scenario, when sanctions will be cancelled it will be difficult for Italy to reconquest the piece of market it occupied before 2014.

1.3 The Ukrainian economy, from the collapse of the Soviet Union

The last part of the paragraph will look at the Ukrainian economy, highlighting the evolution of the relations with Russia and with the European Union. As the Russian Federation, Ukraine from the collapse of the Soviet Union had to face three major changes, the political and governmental system had to be changed together with the economic base. With the ratification of the Belavezha Accords in December 1991, Russian Federation, Belarus and Ukraine proclaimed the dissolution of the Soviet Union and the creation of a new entity, the Commonwealth of Independent States

(CIS) that would become an organization with the aim of facilitating the collaboration on economic, security and social issues. A few days after, the Alma-Ata Protocol was signed, establishing that also Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan and Uzbekistan would join the CIS. The Baltic States and Georgia were the only four ex-soviet republics that decided not to be part of the new organization. Hence, the dependency from Russia was not interrupted with the independence of the country. The close relation of the two countries is even more evident if we look at the Ukrainian economy development, indeed they experienced the same economic cycles: As it was in Russia, the last decade of the 20th century was characterized by high inflation and recession. In 1998 Russian default triggered a financial crisis in the country that led to massive capital outflows and a strong depreciation of the currency that lost 80% of its value. Recovery occurred at the beginning of the new century quite quickly thanks to the implementation of salient reforms such as the adoption of legislation for WTO accession, a better protection of intellectual property rights, liberalization of many business activities, the payment of wage and pension arrears, the elimination of barter trade, a better legislation on money laundering (Segura, 2014).

If we look at Figure 7, in the 2000 for the first time Ukraine experienced economic growth since its independence. Competitive exchange rate accelerated exports, becoming the main source of GDP growth. Between 2000 and 2008 exports grew by 50%, mainly in sectors such as metallurgy, metals and engineering. Thanks to the economic growth experienced worldwide, prices of metals and metallurgy sharply increased. Moreover, the price of oil and gas imported by Russia was still low. The 2008 world financial crisis had a strong impact on the economy of the country: The scenario in 2008/2009 sees a deterioration of the major indicators: Exports declined by - 40% between 2008 and 2009, real GDP reached the peak of -14.8%, the industrial production collapsed by -22%. The crisis obliged the National Bank to proceed with a devaluation of the currency by 65% and the unemployment rate rose to 9.4%.

The country in 2008 was able to gain funds from the IMF and the World Bank that helped in saving banks and stabilize the situation. The currency depreciation made prices for exports more competitive. In 2010, GDP started to grow again: Agriculture, with a record high harvest, played a significant role in supporting GDP growth and in reducing inflation, in 2005 GDP rose significantly by 5,5%.

The following years saw a decline in GDP due to weaker exports and a decline in steel prices because of the poor economic environment in Europe and low domestic investment activity. With the annexation of Crimea and the beginning of the Donbass war, the economic situation

collapsed bringing the GDP to negative levels. The Donetsk and Luhansk regions were of fundamental importance because of the high presence of industries. The Separatist area represents only the 4% of Ukraine but contributed largely to the economic output: 14% of exports came from these zones, 12% of the total industrial production and 9% of GDP (EIU, 2017). The annexation of Crimea and the hostilities therefore were the main reasons for the large declines that Ukraine suffered: Exports declined by about 22% in two years, as exports represented about 45% of GDP, this led to a drop in the GDP by 6.8% in 2014. The conflict led to a devaluation of the Hryvnia (from 8 to 25 UAH/$ in 2014-15), an increase in inflation (to 43% as the end of 2015), increase in unemployment rate (to 10% at the end of 2015), higher fiscal budget deficits (to 11.7% of GDP in 2014) , and problems in the country's financial sector (due to deposit withdrawals caused in turn by lack of confidence). About two-thirds of the drop of exports were due to declines in exports to Russia, Belarus and Kazakhstan, which declined from 32% of the total in 2012 to 23% in 2014 and to 10% in early 2015 (OEC).

However, in 2016 the country started its recovery, thanks to the improvement in the conflict situation. Moreover, the country could receive funds from the IMF that helped in boosting economic development. Domestic trade grew by 4.5 percent in the first half of 2018 due to higher wages and consumption. Agriculture grew by 11 percent due to an early harvest.

Figure 10- Ukrainian GDP (%)
Source: World Bank Data

The mining sector resumed growth at 1.4 percent in the first half of 2018 after contracting by 6 percent in 2017 due to the trade blockade with the Donbas region. However, growth slowed significantly in manufacturing (2.3 percent from 5.1 percent in 2017), construction (5.5 percent from 27 percent in 2017), and transport (1.6 percent from 4.3 percent in 2017), pointing toward weaknesses in investors' confidence. Investors' confidence has been held back by delays in implementing key reforms and completing reviews of the IMF program, given high financing needs through the 2019 election period.

Looking at the export market, data from the Observatory of Economic Complexity show that Ukraine mainly sells abroad Seed Oils ($4.34B), Semi-Finished Iron ($3.25B), Corn ($2.97B), Wheat ($2.93B) and Iron Ore ($2.61B). Russia is the main trading partner: If in 2014 the interchange collapsed due to the geopolitical circumstances, from $38,253,251,428D in 2013 to $23,749,438,236D in 2016. In 2017 Russia regained its first position: Russian exports to Ukraine between 2016 and 2017 rose by 40 percent to $7.2 billion. Vice versa, Ukraine exported $3.9 billion worth of goods to Russia in 2017, up from $3.5 billion in the previous year (The Moscow Times, 2018).

The 2019 elections represents for the country a critical juncture: The new President, Volodymyr Zelensky, has a pro-European tendency. It is still too early to establish if he will be able to normalize Russian-Ukrainian relations. However, it is worth of mention that recently Ukrainian government decided to expand the list of banned goods coming from Russia. The Kremlin replied with the adoption of a decree banning Russian exports of coal, crude oil and oil products to Ukraine that came in force the 1st of June.

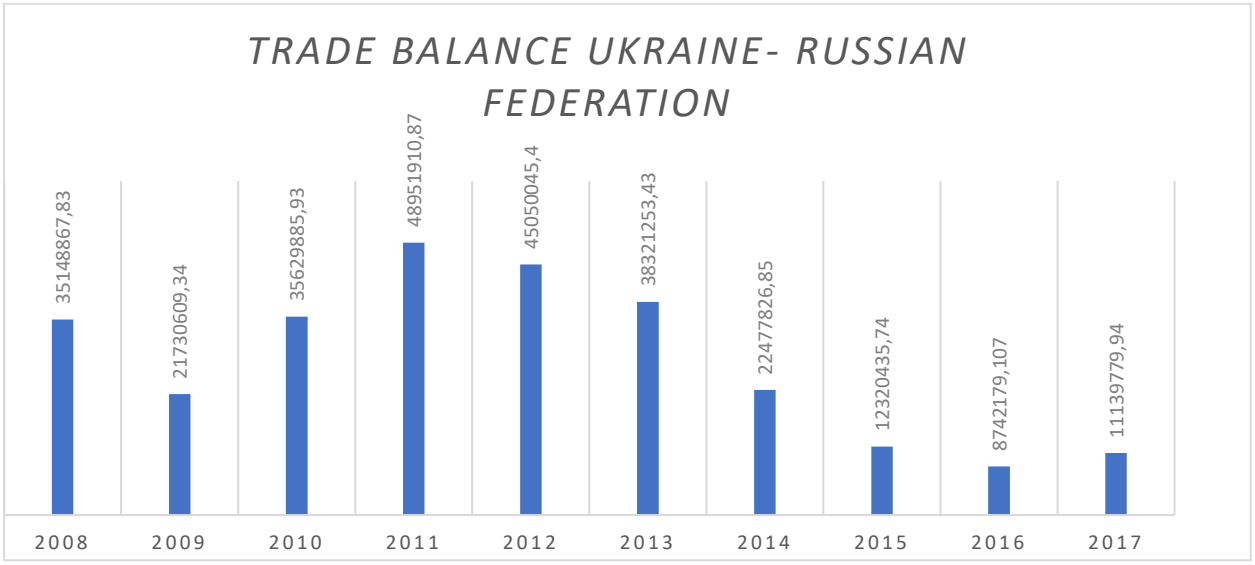

Figure 11- Ukraine- Russian Federation trade balance in $USD
Source: World Integrated Trade Solution

The top export destinations of Ukraine besides Russia are Poland ($2.69B), Italy ($2.66B), Turkey ($2.59B) and Egypt ($2.46B). The top import origins are China ($5.6B), Germany ($5.53B), Poland ($4B) and Belarus ($3.39B).

We will see the meaning of the Association Agreement between the European Union and Ukraine in the next paragraph, however it is worth of mention to see how it changed the EU-Ukrainian relations after 2014: "*The Association Agreement is the main tool for bringing Ukraine and the EU closer together: it promotes deeper political ties, stronger economic links and the respect for common values."* (EEAS, 2018)

It officially entered into force the 1st of September 2017.

The European External Action Service explains that the Agreement recognizes the creation of a Deep and Comprehensive Free Trade Area (DCFTA) that provides Ukraine the possibility to modernise its trade relations and to boost economic development by opening markets.

2. General trends: Geopolitical Events and Sanctions

The first chapter started with an illustration of the economic history of the Russian Federation from the collapse of the Soviet Union. The analysis provided proof of the strong dependency between the Russian economy and the oil and gas exports. Beginning with a strong crisis, from 1999 the country started to recover and then experienced a period of great growth. However, from 2008 the World financial crisis has hit the country and the worst effects showed in 2014 with the oil crisis. The chapter also analysed how the economic situation changed in Ukraine from 1991. There is a coordination and harmonization in the economic cycles of the two countries. Indeed, the last part of the chapter dealt with the economic relations between Ukraine and Russia, showing that the former has always been dependent on the latter. The reliance on those natural resources can largely explain the reduction in trade that Russia experienced from 2014, underlining that sanctions had a modest impact on the decline in the terms of trade.

In the second chapter we will go through an examination of the historical relations between Ukraine and Russia. It will be argued that these two countries share common ancient roots, and to some extent, this relation is crucial for each other. The chapter will then focus on the restrictive measures adopted by the European Union and the Russian Federation, giving a first look at the European sanction's legal framework. A deeper analysis of the legal framework will then be provided at the beginning of chapter 3.

2.1 The historical roots between Ukraine and Russia and the Euromaidan protests

Ukrainian and Russian history has always been interconnected due to, not only, the strategic importance of the region, but also for cultural and social reasons.

In 1917, following the beginning of the Russian Revolution, a civil war erupted in Ukraine. On the one hand there was the Ukrainian People's Republic, that was aiming at driving the country to the independence. On the other, the Red Army. By 1919 the Bolshevik Army conquered two thirds of the country, defining the end of the war. As a result, the Ukrainian Soviet Socialist Republic was created in 1922: Formally an independent state, but strongly tied to Moscow. Starting from this point, Ukrainian policies have been complex. Indeed, in the '20s the State promoted a Ukrainian nationalism, boosting a development of a Ukrainian culture. While in the '30s the

process was reversed, favouring a russification of the population. Crimea has a history on its own: The territory has been Russian until 1954, year in which Nikita Khrushchev transferred the peninsula to Ukraine, as a gift. There are various explanations to this gesture: Some recognized the fact that Ukraine was part of the USSR, hence, no real change would have occurred, others recognized the proximity of Khrushchev to Ukraine, he had always been linked to the country and had an Ukrainian wife. Moreover, it is possible that Khrushchev tried to recompensate the country for the Ukraine's great famine, Holodomor, created by Joseph Stalin that caused the death of four or five million Ukrainians (Calamur, 2014).

In 1991, with the collapse of the Soviet Union, Ukraine became independent state and its boundaries contained the Crimean Peninsula. Due to the ethnic peculiarity of the country, the State decided to give Crimea a special status: Autonomous Republic, with its own constitution, developed within Ukraine law.

To better understand the complex crisis in Ukraine it is fundamental to look at the composition of the population, and how it shapes in the various regions. Looking at figure 9, it can be noticed that the percentage of pro-Russia decreases moving to the west.

Indeed, in the western regions of the country there is a predominance of Ukrainians, the Russian minority in these areas corresponds to less than the 20%. Shifting to east, the concentration of Russians increases. In particular, in Crimea the percentage is more than 50%, while in the regions of Luhansk and Donetsk the percentage reaches a maximum of almost 40%. Moreover, in these three regions, Russian speaking are the vast majority, recognizing it as their first language. According to the 2001 census (the last census available) the Peninsula is mostly populated by Russians (58%), then Ukrainians represent the 24% and Tatars the 12% of the population. Other minor ethnic groups are present in the territory (Crimea History, 2015).

In 2010, Yanukovych won the presidential elections. His party, the Party of Region, is completely pro-Russia. Indeed, the regions in which he had the highest consensus were Crimea, Donetsk and Luhansk. In addition to these *oblasts* he also won in other southern and eastern regions of the country. The western- central part of Ukraine was largely in favour of a pro-European party.

The Ukrainian situation in 2013 was critical, at the end of the year in November, movements and protests started to rise in all the country asking for the resignation of President Yanukovych and a faster process of integration with the European Union (Limes, 2014).

Indeed, Yanukovych decided not to sign the Association Agreement with the EU in November 2013, under great economic pressure from Moscow.

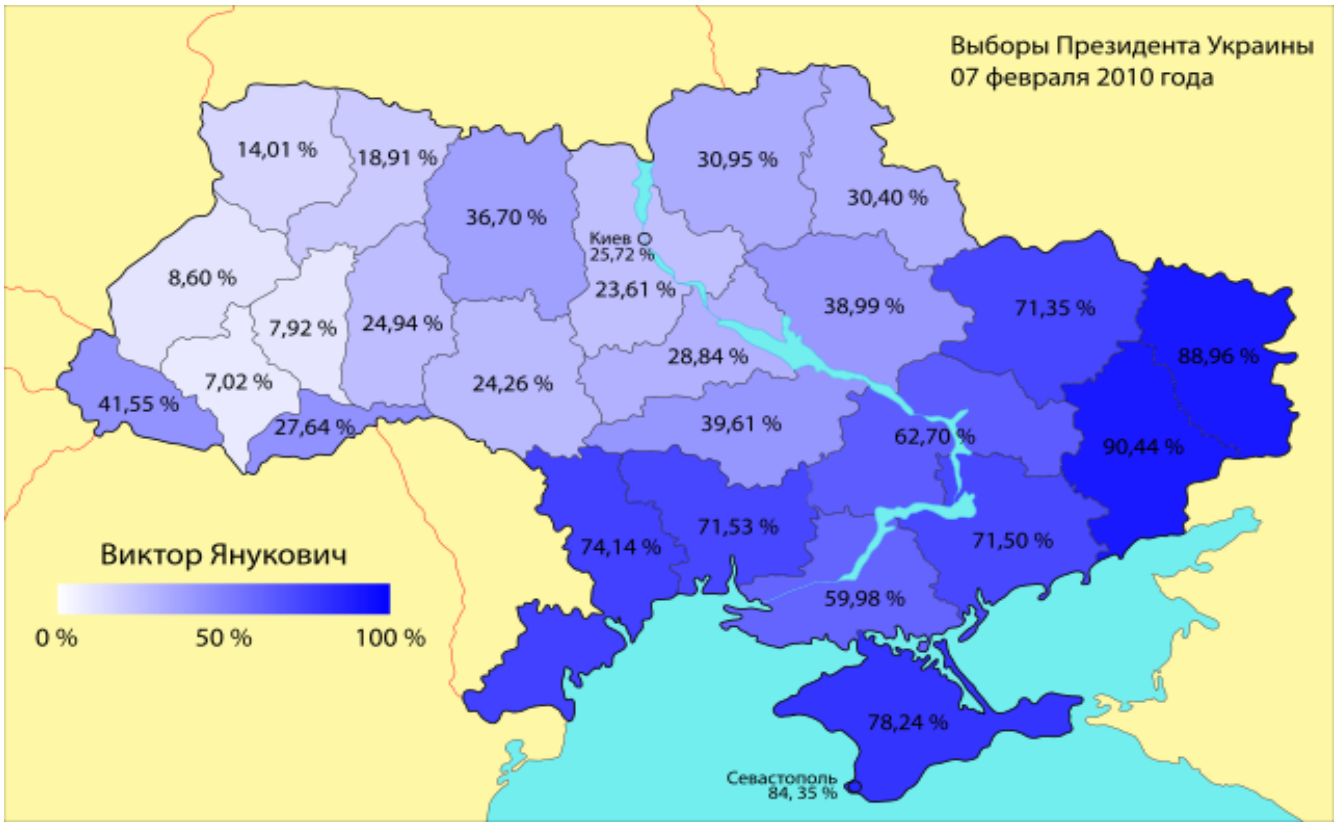

Figure 12- Presidential Elections in 2010- percentage in favour of Yanukovych

Source: Central Election Commission of Ukraine

Three days before signing, Ukraine made an agreement with Russia, the latter lent 15 billion of Dollars to Ukraine and asked not to proceed towards the European Union. Certainly, Ukraine had always been an important ally for Russia from both an economic and strategic point of view. It was unacceptable for President Putin to lose such an important country, that could become also member of NATO.

It is absolutely important to remind that Sebastopol had hosted from 1997 the Black Sea Fleet: The Russian Navy has its headquarter in the city and in 2010 President Yanukovych renewed the Kharkiv Pact that had to be valid from 2010 to 2042. With the Kharkiv Accords, Russia could leased the naval base in Sebastopol, in return they agreed to a 30 percent drop in the price of natural gas sold to Ukraine.

In February, following the explosion of the rebellion in all the country, Yanukovych, seeing that his position was compromised, left the country and new elections were held.

A pro-Europe party won, and Poroshenko became the new president. The eastern part of Ukraine did not participate to the elections and Russia did not recognize the new president. Meanwhile in Crimea insurrections begun as well. The population declared the unrecognition of the result of the

elections and begun to declare Putin as their new leader. Softly, from February, Russia started to invade the peninsula.

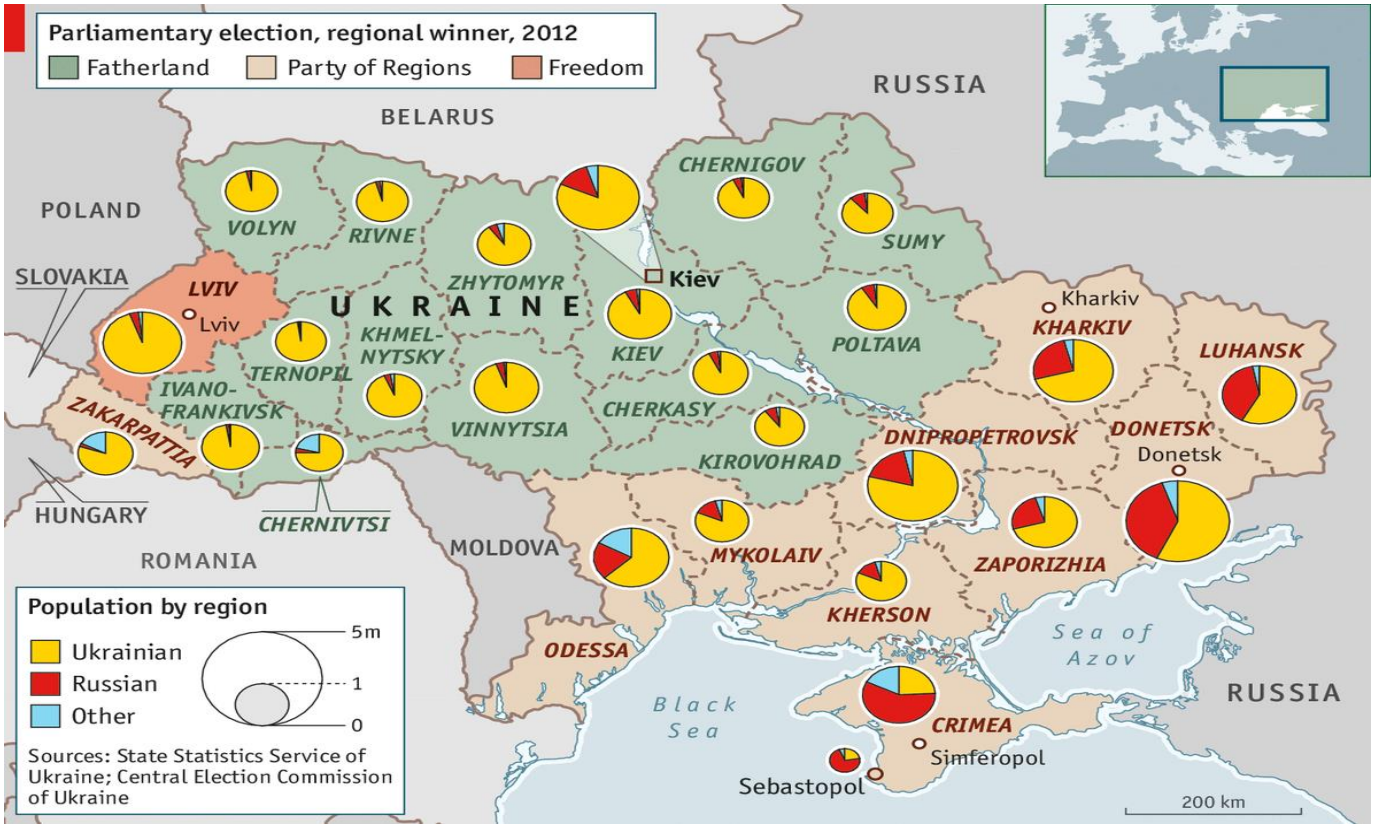

Figure 13- Ethnic division and parliamentary elections of 2012 in Ukraine

Source: Central Election Commission of Ukraine

The 16th March the provisory government of Crimea called for a referendum, firstly for a declaration of self-determination, secondly, for the annexation of Crimea to Russia. With a high affluence the pro-Russia unification won. The Tatars tried to boycott it and did not accept the results. The Tatar leader Refat Chubarov explained: "*The fate of our motherland cannot be decided in such a referendum under the shadows of the guns of soldiers*" (BBC, 2014).

The referendum was, indeed, considered by the western countries as undemocratic, the result was depicted as unreal and subjected to coercion by the Russian authorities. Moreover, the West strongly condemned the annexation as it was a clear violation of the integrity of the Ukrainian territory and its sovereignty.

Undoubtedly, Ukraine in first place declared the unconstitutionality of the referendum and announced that Crimea was temporary under the occupation of the Russian troops and started to impose restrictions to travel to Crimea.

During his speech on the annexation of Crimea at the Kremlin, 18th March 2014, President Putin stated that "*more than the 82% of the entitled to vote took part in the vote. More than the 96% voted in favour of the reunification with Russia*." (Putin, 2014).

The official sources of the Autonomous Republic of Crimea confirmed those data. To understand the current situation and the continuous renovation of sanctions it is important to analyse the events in the regions of Luhansk and Donetsk, it is in these two regions that the conflict is still ongoing (the Donbass war). Looking at Figure 11, in August 2014, a few months after the beginning of the revolt, the Luhansk region is mostly under the control of Ukraine. In the south part of the *oblast*, together with the Donetsk region, the conflict is more intense.

As mentioned above, in both regions there is a high percentage of Russians. When the revolt begun in Crimea, also these two regions started to fight against the control of Kiev. After a referendum, both regions declared their independency, forming respectively the Luhansk People's Republic (LPR) and Donetsk People's Republic (DPR). Probably after these declarations, rebels expected a direct intervention from Russia as it was in Crimea, perhaps it did not arrive.

This is due to the fact that firstly, Russia wants to remain the first partner of Ukraine and needs these territories, that are pro-Russia, to counterbalance the pro-European side. Secondly, those territories are not of fundamental strategic value as Crimea was.

Figure 14- Donbass war, August 2014
Source: Ministry of the Defence of Ukraine

"*The fighting in eastern Ukraine's Donbas region is entering its fifth year. More than 10,000 people have been killed in this persistent conflict; 2,800 were civilians.*
Nearly two million people have been internally displaced or put at risk if they remain in their homes." (Cage, 2018).

Recognizing that the conflict is still open, finding an agreement to end it could be the first step to normalize the Russia-Ukraine relations and put an end to the sanction's regime.
In September 2014, negotiations led to the signing of the First Minsk Agreement, signed by Ukraine, Russian Federation, the Donetsk People's Republic, and the Luhansk People's Republic, that established:

- An immediate bilateral ceasefire. Providing the Organization for Security and Co-operation in Europe (OSCE) the possibility to monitor the situation
- To provide decentralization of power, through the adoption of an Ukrainian law "*On temporary Order of Local Self-governance in Particular Districts of Donetsk and Luhansk Oblasts*"
- An immediate release of all hostages and illegally detained persons. In addition, the adoption of a law preventing the prosecution and punishment of persons in connection with the events that have taken place in some areas of Donetsk and Luhansk Oblasts
- To ensure early local elections
- To withdraw illegal armed groups and military equipment as well as fighters and; mercenaries from the territory of Ukraine (The Economist, 2016)

The agreement was soon violated by both parties and conflicts continued. Talks and negotiations as well were soon restored, leading to the signing of the second Minsk Agreement, "*Package of Measures for the Implementation of the Minsk Agreements*", by Ukraine, Russia, France and Germany in February 2015. This agreement echoed the first pact, imposing an immediate ceasefire as priority. It also called for the creation of a security zone, in order to provide safe access, delivery, storage and distribution of humanitarian aid to the needy. It presented the steps to follow in order to arrive to free local elections and, most important, it stated the necessity to restore the control of the Ukrainian State over the territories occupied and to implement a Constitutional Reform based on decentralization.

At any rate, the international actors had to condemn Russian behaviour, hence, Russian Federation was immediately expelled from the G8 Summit. Instead of the G8 summit in Sochi, a G7 meeting was held in Brussels on 4-5 June 2014.

Moreover, the USA and EU decided to apply economic and diplomatic sanctions to Russia, causing a reaction that lead President Putin to sign an agreement on energy with China and adopt as well counter sanctions against the EU.

2.2 European Union Sanctions

Considering Russia's actions destabilising the situation in Ukraine and, in particular, the annexation of Crimea to its territory, the EU decided to impose restrictive measures with a view to increasing the costs of Russia's actions to undermine Ukraine's territorial integrity, sovereignty and independence and to promoting a peaceful settlement of the crisis. The measures are subject to review and may be suspended or withdrawn, or be supplemented by other restrictive measures, in light of developments on the ground.
The European Institution that has the power to decide over the imposition, renovation or cancellation of sanctions is the European Council, as stated in Art. 215 Treaty on the Functioning of the European Union (TFUE):

1. Where a decision, adopted in accordance with Chapter 2 of Title V of the Treaty on European Union, provides for the interruption or reduction, in part or completely, of economic and financial relations with one or more third countries, the Council, acting by a qualified majority on a joint proposal from the High Representative of the Union for Foreign Affairs and Security Policy and the Commission, shall adopt the necessary measures. It shall inform the European Parliament thereof.

2. Where a decision adopted in accordance with Chapter 2 of Title V of the Treaty on European Union (Specific provisions on the common foreign and security policy) so provides, the Council may adopt restrictive measures under the procedure referred to in paragraph 1 against natural or legal persons and groups or non-State entities. Hence, every Member State has a *de facto* a veto power. Indubitably, up to now, no one had vetoed the renovation of sanctions because greater geopolitical interests could be strongly damaged.

From July 2014, sanctions against Russia have constantly been renovated. This is due to the fact that, even if, on one hand, several states are seeing damages to their economics, on the other, the

removal of sanctions is directly related to the developing situation, in particular, to the implementation of the Minsk Agreements.
The European Union has imposed different types of restrictive measures:

- diplomatic measures (expulsion from the G7 and cancellation of the EU-Russia Summit)

- individual restrictive measures (asset freeze and travel restrictions)
  164 people and 44 entities are subject to an asset freeze and a travel ban because their actions undermined Ukraine's territorial integrity, sovereignty and independence.

The measures were introduced in March 2014. Each kind of sanction has been renovated by the Council following the unanimity rule. Concerning economic sanctions: They were lastly approved in June 2019 until 31 January 2020.

- restrictions on economic relations with Crimea and Sevastopol:
  The measures apply to EU persons and EU based companies. They are limited to the territory of Crimea and Sevastopol. These measures include
  - an import ban on goods from Crimea and Sevastopol
  - restrictions on trade and investment related to certain economic sectors and infrastructure projects
  - a prohibition to supply tourism services in Crimea or Sevastopol
  - an export ban for certain goods and technologies

- economic sanctions
  - limit access to EU primary and secondary capital markets for certain Russian banks and companies
  - impose an export and import ban on trade in arms
  - establish an export ban for dual-use goods for military use or military end users in Russia
  - curtail Russian access to certain sensitive technologies and services that can be used for oil production and exploration

- restrictions on economic cooperation

- the EIB was requested to suspend the signature of new financing operations in the Russian Federation;
- EU member states agreed to coordinate their positions within the European Bank for Reconstruction and Development (EBRD) Board of Directors with a view to also suspend the financing of new operations;
- the implementation of EU bilateral and regional cooperation programmes with Russia was re-assessed and certain programmes suspended. (European Council, 2018)

A first round of sanctions was applied the 17th March 2017, when restrictive measures against 21 Russian and Ukrainian officials were undertaken. Three days after, other twelve names were added to the list. In addition, during the meeting it was decided to elaborate new economic sanctions to apply if Russia kept destabilizing the situation in Ukraine.

From May to September 2017 the Council met regularly and passed a series of regulations in order to impose and reinforce the set of restrictive measures to undertake against Russia.

The Council Regulation (EU) No 833/2014 of 31 July 2014 "*concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine*" is the main document in which the EU establishes all the products that cannot be exported anymore to the Russian Federation.

Before seeing these products, it is important to look at the Council Regulation (EC) No 428/2009 of 5 May 2009 "*setting up a Community regime for the control of exports, transfer, brokering and transit of dual-use items*". In this regulation we find the definition of dual-use-item as "*items, including software and technology, which can be used for both civil and military purposes, and shall include all goods which can be used for both non-explosive uses and assisting in any way in the manufacture of nuclear weapons or other nuclear explosive devices*". The goods regulated with this act represent a part of the goods subjected to sanctions.

So, article 2 of the Council Regulation (EU) No 833/2014 of 31 July 2014 states: "*It shall be prohibited to sell, supply, transfer or export, directly or indirectly, dual-use goods and technology*" (according to the definition previously given). It also adds at art.3 that "*A prior authorisation shall be required for the sale, supply, transfer or export, directly or indirectly, of technologies as listed in Annex II*".

Category 0	Nuclear Materials, facilities and equipment
Category 1	Special materials and related equipment
Category 2	Materials Processing
Category 3	Electronics
Category 4	Computers
Category 5	Telecommunications and "information security"
Category 6	Sensors and lasers
Category 7	Navigation and avionics
Category 8	Marine
Category 9	Aerospace and Propulsion.

(Council Regulation (EC) No 428/2009)

EU sanctions aim at consistently damaging Russian economics, hitting them without causing major damages to the European economies. Hence, the sanctioned goods include "*chemical or biological products, nuclear materials and technologies, optical and laser technologies, aviation technology and propellant systems, materials used in aviation electrical engineering, navigation electronics, marine, technology and certain types of software. Moreover, it was introduced a ban on providing services necessary for researching and drilling for oil in deep waters, for arctic research and drilling oil, or for projects, focusing on oil-bearing shales*." (Deloitte, 2014).

Therefore, it can be concluded that European restrictive measures targeted three economic sectors of the Russian economy: The oil sector, foreign investments and equipment and technologies sectors. It is difficult to calculate the effective damages occurred with sanctions, but it is possible to state that "*indirectly at least, the sanctions have helped the oil sector and have been neutral on the other two areas. The oil sector was forced to become more efficient and innovative and has actually boosted oil output in the three years since August 2014*." (Macro Advisory, 2017).

Worth of mention that the main difference with the US sanctions, that are not going to be taken under consideration in this paper, is that the European Union did not sanctioned some companies and individuals connected with the energy sphere due to the fact that Russia is the main exporter partner for the EU. On the grounds of this interdependency with Russia, some EU Member States are asking for an easing of sanctions: Italy, Hungary, France and Greece, among the others, are

trying to convince the European Commission to stop renovating the regime, but no concrete results have been made up to these days.

2.3 Russian countersanctions

In reaction to the sanctions undertaken by the European Union (and by the United States of America), with the Decree of the President of the Russian Federation dated 6 August 2014 n. 560 *"On the application of certain special economic measures to ensure the security of the Russian Federation"*, Moscow decided to respond to the restrictive measures imposed. From a geopolitical point of view, Russia does not recognize any violation of the international law when annexing Crimea, they declared the validity of the referendum, made without any kind of pressure by them. Here we have two main principles of international law, fighting one the other. Russia declares that its action was led by the principle of self-determination of the Crimean population. Nonetheless, Ukraine and the western world calls for the infringement of the principle of territorial integrity and unity of Ukraine. The aim of the paper is not to establish in which of the two sides lies the truth, but it was important to briefly mention the issue.

Countersanctions involves mainly the food import sector, but restrictions were undertaken against individuals as well. Indeed, right after the adoption of the US sanctions, Moscow banned ten US citizens and thirteen Canadians, including some politicians coming from the two countries. The reasons why the Kremlin decided to ban food import goes back to 2010: In August 2010 the country "*suffered from excess heat, forest fires and a very bad grain harvest. Putin called for efforts to ensure there would be no food shortages or price hikes the following winter and was told, more or less, not to worry, as Russia was a large importer of food. The evidence is that he did not know that and had assumed Russia had a greater self-sufficiency. Ever since then, he has been demanding more investment into agriculture and food but with little follow through*." (Macro Advisory, 2017).

The possibility to counteract to the restrictive measures imposed by the EU and US was the perfect way to finally fulfil his goal, blocking the food import. Indeed, as shown in the list below, Moscow's countersanctions are meant to hit the foreign agri-food industry.

However, it would be erroneous thinking that the main reason for the adoption of sanctions was to hurt the Western producers, sanctions stimulated domestic producers to invest and then produce more, making Russia self-sufficient.

Indeed, as it will be better explained in the next paragraph, retaliation measures were undertaken simultaneously to an Import Substitution Plan that boosted Russian agriculture sectors. Insights on the application of the Plan are provided in the next paragraph.

CN CODE	List of Products
0201	Meat of bovine animal, fresh or chilled
0202	Meat of bovine animal, frozen
0203	Pork, fresh, chilled or frozen
0207	Meat of edible offal
From 0301 to 0308	Fish and crustaceans, molluscs and other aquatic invertebrates
From 0401 to 0406	Milk and diary products
From 0701 to 0714	Vegetable, edible roots and tubers
From 0801 to 0813	Fruit and nuts
160100	Sausages and similar products of meat, meat offal or blood
190190	Finished products, including chees and curd based on vegetable fats;Foods, milk containing products on the basis of vegetable fats

Table 1- Russian sanctioned prducts

Russia's sanctions compared to the EU's ones are way broader, they limit entire categories of products. In opposition, the EU sanctions are specific and targeted to determined goods.

As shown from Belin and Hanousek (2019), this led Russian sanctions incredibly more effective than the ones undertaken by the EU. Russia, due to the specificity of the EU sanctions, was able

to circumvent the ban on imports finding goods that can be considered substitutes. Moreover, sanctions did not have a retroactive effect, hence all the contracts stipulate before March 2014 were still valid. Lastly, it was considered easier for European workers to find a way to re-codify their products in order to escape to the sanction limitations.

3.3- Russian Import Substitution Plan

After having analysed the literature concerning economic sanctions, I found interesting to address and draw some conclusions about the import substitution plan launched by President Putin as the crisis started.

As mentioned in the first chapter, Russian industries are not developed as the European ones. In particular, Russia has been a great importer of agricultural products. Conversely, the country has always been rich of natural resources. Indeed, Russian economy has a strong basis in the oil and gas sector, as a result of its exports and the European Union stands as one of the more important markets.

Galtung (1967) in his work affirmed: "the more a country's economy depends on one product, and the more its exports consist of one product, and the more its exports and imports are concentrated on one trade-partner, the more *vulnerable* is the country" to the impact of sanctions. As the author himself explains, success of economic sanctions is directly proportional to the target's *vulnerability*, that consist of both an internal and an external component: It is based in the target's reliance on one product, the concentration of products exported and the concentration of trade-partners.

In this chapter, I would like to define some of the causes that made EU sanctions ineffective, and, on the other hand, Russian countersanctions impacted the European economy eight times more (Belin and Hanousek, 2019).

Data from EUROSTAT show that from 2017 Russia has reconquered its first position as EU exporter of oil and gas: In 2017 and 2018 Russia was the largest supplier of natural gas to the EU, occupying the 40% of the total market. The Union has always relied on the Federation in this market.

On the other way around, Russian dependency from European products regards trades of chemical and mechanical items, luxury and fresh and diary goods. The imposition of countersanctions by Russia was well elaborated and developed. As seen before, restrictive measures can affect exports,

by limiting them to the target country (as the ones adopted by Europe) or can affect imports, hence blocking the access of specific foreign goods to the domestic market from the target country (as the ones adopted by Russia toward the European Union). As a direct consequence of the blockage on the access of target country's goods, internal goods will benefit of a slice of cake of the market that was earlier occupied by foreign products. Intuitively, sanctions on imports combined with an industrial plan could lead the country to transform its economy drastically.

President Putin, when the crisis begun, was seeking this double objective: Diversify Russian economy away from oil and gas exports damaging Union's profits. For instance, Russia "is one of the world's largest manufacturers, with a wide range of manufacturing capabilities. However, much of its manufacturing output is not competitive on global markets and is consumed domestically" (Connolly and Hanson, 2016).

Import Substitution Plan was launched four years ago, in my opinion, it seems of interest to briefly examine its effects. As I will explain in the next paragraph, I decided to focus on the impact of the European sanctions rather than on the Russian ones because the latter are imposed on broader categories, making almost impossible to find complementary goods that were not involved in the sanctions regime. Analysing the effects of the import substation plan could give a partial and generic idea on the effects of the countersanctions.

Most of the literature on the effects of the Plan are sceptical about its real success, however changes have occurred, and some sectors of the Russian economy have experienced a great improvement. The plan envisages the implementation of 2,059 projects across 19 branches of the economy between 2016 and 2020 as reported by Prime Minister Medvedev during a speech in 2014. A year after the imposition of sanctions, the 11th of August 2015, the Kremlin instituted the Commission on Import Substitution in order to boost domestic industries to develop. Import Substitution Plan has to be read in light of a complex will, it is one of the measures that should help Russia in gaining more "economic sovereignty"[3] .

In December 2015, President Putin readdressed the issue explaining that the 19 branches should be supported by exemption from profits tax and by having 30 per cent of their output open to purchase by the state without competitive tendering; producers had just to prove their success in exports.

This is a major confirmation of the real aim of the policy: To promote national security and national standing in the world rather than international economic integration.

[3] Defined by Connolly and Hanson (2016) as "the ability of a state to influence the terms on which its citizens do business with those of other states". They also suggested that for Russia it has a broader meaning: Economic sovereignty can reduce vulnerability to political pressure from foreign powers

As a declared policy, import substitution began with three presidential instructions (porucheniya) on 14 May 2014:

- Instruction 1159 required the government to assess by 1 August 2014 the 'possibility of competitive import substitution in industry and agriculture'.

- Instruction 1159 told the government to compile by 1 September 2014 a list of goods and services that can be purchased by national and subnational government exclusively from suppliers in the countries of the EAEU.

- Instruction 1159 ordered the government to work out by 1 October 2014 plans for facilitating import substitution in 2014–15.

Critics to the Plan are various. Firstly, it is stressed that the relatively modest volume of resources allocated to achieve economic sovereignty is surely dwarfed by the magnitude of ambition. Spreading scarce resources so thinly does not augur well (Cooper, 2016).
Secondly, problems of competition will occur. Domestic producers' protection will cause a worse off in competition's degree, if one day the sanctioning regime will be dismissed will Russian industries be able to compete with international products? Scholars answer negatively to the question.
Moreover, worries connected to competitiveness regard technological and productivity development; free and effective competition is key factor for the promotion of these factors. Despite critics and scepticisms, the plan succeeded in the agricultural sector and has been used as a steward from the political class to stress the triumph of the policy. Sanctions adopted by Russia against imports of food from the sanction's imposers provided the best scenario for domestic producers to supplant foreign ones and enhance national food security. Sources and data on the effects of the Import Substitution Plan are difficult to be find, most of the information comes from communications and speeches of the political class.
In April 2017 Prime Minister Dmitry Medvedev revealed in a government report that production of agricultural machinery had increased 50 percent in 2016. In agriculture, Russia is now the world's largest wheat exporter, the second-largest producer of sunflower seeds, third-largest producer of potatoes and milk and the fifth-largest producer of eggs and chicken meat. Agriculture represents about the 5% of the GDP, employing about the 11% of the population; by the end of 2017, Russia had produced 14.6 million tonnes of livestock and poultry, 25.8% more than in 2012. Moreover, the country has become self-sufficient in the production of pork and poultry. (Connolly et al. 2016).

Russian propaganda keep talking about the success of the countersanctions regime, in order to draw some conclusions, a distinction has to be made: To be more precise, it is worthwhile to distinguish between the need to cause a damage to the European countries and the will of develop a strong industrial sector in the country in order to guarantee economic sovereignty. The achievement of the former objective can be proved by many studies, in particular Belin and Hanousek (2018) demonstrated that Russian countersanctions are eight times more effective than the European ones. With respect to the latter, Import Substitution Plan has been a first step in the developing industries principally in the agricultural -food sector; however, scepticisms and doubts about its efficacy are well founded and make it difficult to assert that Russian industries will be able to compete with international goods.

3. Between the Hammer and the Anvil:

the Respect of International Laws vs. Petroleum Dependency.

From 1957, the European Union has strongly developed, occupying nowadays a fundamental role in the international arena. Albeit the process of integration is still ongoing, and results are still uncertain, cooperation between Member States improved in other fields beyond the economic one, leading the Union to obtain great influence worldwide.

Researchers have underlined that one of the elements that contributed to the improvement is their sanctions policy (Kreutz, 2005; Portela, 2010).

Indeed, while at the beginning there was slight cooperation in foreign and security policy, from the Maastricht Treaty collaboration has improved, leading to satisfying results.

In the first part of the chapter, I will give a brief overview of the Union legal framework for the adoption of sanctions; proofs of the possibility to adopt sanctions by the Union (at the time still the European Economic Community) can be traced already with the adoption of the Treaty of Rome, in 1957.

The EU takes a targeted and differentiated approach to restrictive measures, depending on the area of action sanctions have different legal frameworks. Indeed, they can range from diplomatic sanctions to arms embargoes, restrictions on admission of listed persons (travel ban), freezing of assets and finally, economic sanctions. The adoption of one of those types of sanctions does not exclude the others, in fact the enactment of one of these instruments is usually complementary to the others. Considering the topic of the paper, focusing on the economic restrictions adopted by the European Union, I will analyse the communitarian legal framework giving specific relevance to this type of sanctions.

The second part of the chapter will deal with an analysis of the literature in the field.

Finally, the last part will focus on the empirical analysis. A difference in differences model will be used in order to answer to our research question: Have EU sanctions impacted exports towards Russia?

3.1- European legal framework

The literature has not found an agreement over when the EU power to impose sanctions has begun. Some researchers date this ability back to 1957, with the adoption of the Treaty of Rome. The

European Community was established mainly as an economic organization with the goal of creating an open internal market, hence collaboration on security and political issues were not on the agenda. However, the Treaty encouraged collaboration for "an ever closer Union among the peoples of Europe", thus promoting cooperation in other fields beyond economics. As a matter of fact, the Treaty of Rome confirmed the will to abide to the UN Charter, hence the obligation to implement economic sanctions adopted by the international organization. Art. 57 of the Treaty stated "*any Member State may take such measures as it considers necessary for the protection of the essential interests of its security which are connected with the production of or trade in arms, munitions and war material…*" (EEC, 1957).

Hence, production of arms and security issues remained responsibility of each Member State. Therefore, when in 1965 the EC had to adopt UN economic sanctions against Rhodesia, each Member State implemented the measures independently, using their national legislations. As reported by Portela (2010) , the individual implementation of sanctions led to an inefficient result; firstly, Member States laws differed notably in content; secondly, the lack of coordination in the timetable contributed in eroding effectiveness.

As one can imagine, the absence of coordination at a supranational level was strongly connected with the fear of each Member State to lose part of their national sovereignty in favour of the Community.

Considering that the *"Rhodesian doctrine*[4]*"* was not proving to be successful, Member States decided to act at a supranational level in order to gain in effectiveness. A new procedure was established, known as the "*Malvinas doctrine*". The new doctrine was already applied in the '70, however, difficulties in reaching an agreement caused a complete failure during the entire decade. Therefore, the doctrine was named Malvinas as a consequence of its success in 1982 in the implementation of an import ban against Argentina. Thus, Member States decided to coordinate their foreign policies: A new intergovernmental forum was created, the European Political Cooperation (EPC), in order to find solutions in this field. Decisions taken in this arena were then adopted by a Community Regulation, in accordance to Art. 113 of the TEEC. Hence, part of the scholars recognizes the establishment of the EPC in 1970 as the beginning of the EU power to impose sanctions. As pointed out by Koutrakos and Lukashek, Member States decided to abandon the Rhodesian doctrine for a practical reason, its inefficacy. Their first concern was, indeed, to obtain effectiveness in sanctions policies through uniformity in the implementation.

[4] Rhodesian Doctrine: implementation of UN sanctions by means of national legislation (Kreutz, 2005)

However, it is important to bear in mind that, if on the one hand it is true that the EPC created the first forum of cooperation in sanctions application. On the other hand, there was not a legal framework for the independent implementation of sanctions by the Community, the Malvinas doctrine was applied only in the operations connected to the UN.
Already in 1973, with the Copenhagen Declaration, the nine Member States worked in order "*to achieve a better definition of their relations with other countries and of their responsibilities and the place which they occupy in world affairs."* (Copenhagen Declaration, 1973). It is in this context that they tried to render the EPC more institutionalized. However, as hinted above, during the '70 the conflict between France and Great Britain led the EPC stalled, as can be seen in the inaction with the Iranian crisis when *"the United States requested that the EU join its sanctions in 1979, discussions within the EPC intensified, however without reaching any decision. At most, the EPC members agreed to commonly condemn the hostage-taking in Tehran but could not agree on sanctions."* (Kreutz, 2005).
Some scholars, in particular Koutrakos, pointed out that there was not a real legal basis to the sanction regime due to its political nature. Indeed, although we are talking about economic measures, sanctions bring with them strong political implications. He argues, sanctions demonstrate that political reasons can bypass the legal controversies, shaping a legal system compatible with the adoption of sanctions at the communitarian level.
In 1981, a new attempt was made to strengthen the effectiveness of sanctions policies. Great Britain launched a process that led to the signing of the London Report. The document suggested increased EPC activity and launched measures to allow the EU to improve its ability for rapid reaction through institutions such as the '*Troika'* secretariat and a *'crisis procedure'* whereby the Political Committee or ministers could be called together within forty-eight hours. In the following months, EU activity in the field improved substantially, adopting sanctions against the USSR and then Argentina.
Subsequently, with the adoption of the Single European Act (SEA) in 1987, sanctions legal framework was finally codified. The SEA, besides creating an area of free movement for people, goods and services, gave the Community the ability to impose autonomously sanctions. Moreover, the codification of the EPC made the Commission part of the process of sanction's adoption.
The ratification of the Maastricht Treaty marked a turning point in the history of the Union: The adoption of the Treaty had an enormous impact on the decision-making process. Moreover, the division in pillars impacted the sanctions regime. In the Second Pillar, Common Foreign and Security Policy (CFSP), established by the Treaty, sanctions regime was codified. In the

framework of the CFSP, the European Community had finally its own powers to implement UN sanctions and to adopt independently new ones.

Hence, sanctions (or restrictive measures as defined by the EU) are tools to be used in order to reach goals of the CFSP. Art. 21 of the TEU lists in which cases the Community can adopt sanctions, regardless of the UN actions: In the advancement of *'democracy, the rule of law, the universality and indivisibility of human rights and fundamental freedoms, respect for human dignity, the principles of equality and solidarity, and respect for the principles of the United Nations Charter and international law'* (Giumelli, 2013).

As reported by Portela (2010), there was a dual system in the procedure for the adoption of sanctions: Firstly, Member States had to find an agreement in the EPC; then, in the context of the CFSP, regulations were adopted. However, scholars strongly criticized the dual system that usually caused a loss in time. For instance, during the Yugoslavian crisis and in particular with respect to Kosovo, the Commission itself recognized the ineffectiveness of the sanctions adopted due to extended timing. (Commission of the European Community, 2000). It must be said that until 2004, no real debate on sanctions was opened; in that year the Council promoted "The Guidelines on the use of sanctions", only then discussions on the topic begun. I will now give an overview of the present legal framework, then we will talk about the last three documents adopted by the EU in the field: Basic Principles on the Use of Restrictive Measures, Guidelines on Implementation and Evaluation of Restrictive Measures and The EU Best Practices for the Effective Implementation of Restrictive Measures.

Article 30 and 31 of the consolidated version of the Treaty on the European Union, defines the procedure to follow for the adoption of sanction. Before analysing the procedure in depth, the general idea is that the Council has the main power to adopt sanctions, by unanimity. The Treaty gives to the Commission the power of enforcement of the restrictive measures. However, practice shows that it is a merely formal power.

The power to trigger the process making suggestions stands in the hand of the High Representative of the Union for Foreign Affairs and Security Policy (with the support of the Commission, as well) or any Member State. In the Foreign Affairs Council, a generic proposal is reported for a first reading, it then moves to the Political and Security Committee (PSC). The body analyses it in in depth, further inspection is undertaken by the competent geographical working groups of the Council. At this stage, discussions and negotiations between Member States begin, they only end when consensus is reached. Afterwards, the Foreign Relations Counsellors Working Group

(RELEX) receives the approved document; in this body, each restrictive measure is scrutinized, establishing the concrete and specific measures to undertake.

Finally, the Committee of Permanent Representatives II (COREPER II) and then the Council have to approve the proposal by consensus. The European External Action Service (EEAS) plays also an important role in the procedure: At any of the stages previously discussed, it has the responsibility to make suggestions on the measures to undertake, whom to target with sanctions. It is also responsible for presenting drafts of the new legal base to be negotiated in detail in RELEX. (Giumelli, 2013).

There are different types of targeted sanctions that fall within the former first and second pillars as described in the Treaty on the Functioning of the European Union (TFEU). When the Council makes a decision concerning CFSP under Chapter 2, Title V of TEU, both trade and financial sanctions require a Council regulation according to Article 215 of TFEU (financial and economic relations) to be implemented. Under this procedure the Parliament should only be informed about the decision, but Article 75 of TFEU establishes an exception. When the EU acts to prevent and combat terrorism and related activities, the Council and the Parliament should adopt a regulation via the ordinary legislative procedure. "*Travel bans and arms embargoes, do not need further legislation from the EU beyond the Council's decision, exception for dual-system that can be compiled by the Council in ad hoc regulations."* (Giumelli, 2013).

As mentioned above, the EU adopted between 2003 and 2012 three different documents, dealing with the adoption of restrictive measures, each of the three better explain the procedures and the circumstances in which sanctions can be adopted.

The Basic Principles on the Use of Restrictive Measures, approved in 2004, states in its item notes "*The Council on 8 December 2003 had requested the Secretary General/High Representative, in association with the Commission to develop a policy framework for more effective use of sanctions*" (European Council, 2004).

Hence, with the approval of the document the Council reaffirmed the EU's capacity of adopting sanctions not depending mainly from the UN, indeed, the Union can act independently in the field when necessary' to meet its objectives.

The document also suggested a major commitment in the adoption of targeted sanctions: These kind of sanctions are designed to have a maximum impact on those whose behaviour want to be influenced, targeted sanctions should reduce to the maximum extent possible any adverse humanitarian effects or unintended consequences for persons not targeted or neighbouring countries. (European Council, 2004).

The “Guidelines on Implementation and Evaluation of Restrictive Measures in the framework of the EU Common Foreign and Security Policy” firstly approved in 2003, then revised in several occasions, the latest in 2017, is considered together with the Basic Principles the first two programmatic documents of the EU sanctions policy. The Guidelines deal with the categorisation of the different types of restrictive measures the EU can adopt, looking as well as their chance to be effective; it also contains definitions and directives on how to implement sanctions. Lastly, “The EU Best Practices for the Effective Implementation of Restrictive Measures” of 2008 “*contains the relevant information on how to identify the correct designated individuals or entities, and on the administrative modalities for freezing assets and banning products, including the procedure on how to grant exceptions and exemptions to the measures*”.

The following table offers a schematic overview of the process described above presenting the steps undertaken by the EU in the institutionalization of the sanctioning regime.

Year	Legal Act	Implications
1957	Treaty of Rome	No coordination in imposing sanctions.
1965	Rhodesian Doctrine	Each Member State independently implemented UN measures
1972	European Political Cooperation (EPC)	Establishment of a new forum that deals with the implementation of UN sanctions
1973	Copenhagen Declaration	Attempt to institutionalize the EPC
1981	London Report	Faster mechanism in implementing sanctions at EU level
1982	Malvinas Doctrine	First success in implementing the EPC system
1987	Single European Act (SEA)	Codification of the EU legal framework in the adoption of sanctions
1993	Maastricht Treaty	Sanctions regime codified in the second pillar. EU has its own powers in adopting independently sanctions
2004	Basic Principles on the Use of Restrictive Measures	Affirmation of more commitment in the field. Targeted sanctions regime is discussed.
2008	EU Best Practices for the Effective Implementation of Restrictive Measures	Mostly concerning the criteria to impose targeted sanctions.
2017 (first publication in 2003)	Guidelines on Implementation and Evaluation of Restrictive Measures in the framework of the EU Common Foreign and Security Policy	Categorisation of the different types of restrictive measures.

Table 2- Crucial steps in the creation of an independent European legal framework for the adoption of sanctions

3.2- Review of the Literature

After having examined the legal framework for the adoption of restrictive measures by the European Union, the second part of the chapter will analyse the major theoretical contributions to the literature of sanctions. I will proceed giving a definition of sanction: Depending on the scope, the target subjects, or the content; restrictive measures also differ in the level of intensity and in the number of senders involved. Then, I will present different, complementary approaches to the subject to support the case-study presented in the last paragraph of this chapter.

As explained before, I will analyse the variation of exports from some European countries to the Russian Federation of pairs of sanctioned/ not sanctioned goods, that can be considered substitute, in order to quantify the impact of the policy (application of sanctions). The evaluation of the policy will be made using the difference in difference model. In the next section, a description of the model will be given.

Sanctions are part and parcel of international diplomacy, a coercive tool applied to target governments in order to obtain policy changes. *"In most cases, the use of sanctions presupposes the sender country's willingness to interfere in the decision-making process of another sovereign government, but in a measured way that supplements diplomatic reproach without the immediate introduction of military force."* (Hufbauer, 2007).

As mentioned in the above paragraph, restrictive measures differ for their level of intensity: According to Hufbauer, Elliott, Oegg and Schott (2007) diplomatic measures, such as the interruption of relations connected to the withdrawal of ambassadors, represent the weakest stage. Following an increase scale, the next level regards travel bans, asset freezes, obstacles to get credit from international organizations; continuing, economic sanctions represent the highest level of intensity: They can consist in limits of exports to the target country or limits importing goods from the target country or measures aiming at damaging a specific industrial sector. Worth of mention, Russia, from the beginning of the Crimean crisis, has been subject to all these kinds of measures. In 2014 the country was expelled from the G8, that became G7 and took place in Brussels instead of Sochi. Soon after, travel bans and assets freezes were applied to Russians individuals and industries or banks: 170 people and 44 entities are, nowadays, subject to an "*asset freeze and a travel ban because their actions undermined Ukraine's territorial integrity, sovereignty and independence"* (European Council, 2019).

Lastly, the European Union blocked exports of dual-goods items, export and import ban on trade in arms and it was denied the access to certain sensitive technologies and services that can be used for oil production and exploration.

The work of Hufbauer et al. (2007) is a masterpiece in the sanctions literature, it will be deeper scrutinize afterwards, when the effectiveness of sanctions will be defined according to the their ability of changing the target's undesired behaviour.

A widespread distinction in the field stresses the difference between negative and positive sanctions. Baldwin, in first stance, gives a generic definition of the two: "*Positive sanctions are defined as actual or promised rewards to B; negative sanctions are defined as actual or threatened punishments to B."* (Baldwin, 1971). Positive sanctions regard economic aids, incentives or the lift of sanctions; contrarily, the sender, whit the imposition of negative sanctions, aims at damaging the economy of the target country, with an interruption of the normal life of trades between the two countries.

However, as Baldwin himself recognizes, a bias stands between the use of the two types of sanctions, leading to an almost complete disuse of positive sanctions; indeed, looking at the evidence, negative sanctions are best known and most frequently applied in the international arena.

Success of sanctions is defined by the majority of the literature as the ability to change the target behaviour; studies that strictly apply this definition report that sanctions are mostly ineffective. However, taking in consideration that Russia's behaviour did not change – and it seems it will not change- in the last five years, it sounds useful to look at the effectiveness of sanctions in a broader way.

Barber (1979) proposes to verify sanction's success looking over the merely change in the target behaviour. He sustains that sanctions have different goals. Hence, the change of an unwanted policy is just one of their duties. Restrictive measures *"are imposed for a variety of reasons, revealing a mixture of aims on the part of those governments seeking to impose them - ranging from international and domestic considerations, to differences of view within various sections of the government"* (Barber, 1979). He distinguishes between primary, secondary and tertiary objectives. Primary objectives concern the will to change actions and conducts of a target state. Secondary goals relate to the status, reputation and expectations of the sender governments, with special refer to the government's need to demonstrate to the foreign and internal public opinion their willingness to act. Finally, tertiary objectives which are concerned with the structure and behaviour of the international system. The importance of secondary and tertiary objectives has often been undervalued. Hufbauer (2007) recognized that the United States has frequently

deployed sanctions to assert its leadership in world affairs. US presidents decided to intervene in many cases, even when the likelihood of changing the target country's behaviour was remoted. In these cases, sanctions are often imposed because the cost of inaction—in terms of lost confidence both at home and abroad in the ability or willingness of the United States to act— is seen as greater than the cost deriving from the adoption of sanctions.

Sanctions imposed by the US to Japan, before World War II, represent a striking example; indeed, with the adoption of this measure, the American government could substantially increase its public support.

Undeniably, from the end of the Second World War, until two years ago with the elections of Donald Trump, the international community has always looked at the United States as leader and spokesman of the Western world and its values. Hence, the allied have often expected its action to demonstrate moral outrage and to stand to promote human rights and democratic principles. Yet, it is still almost impossible to evaluate the impact of sanctions considering their secondary and tertiary objectives, because some of the aims are so elusive (for instance, the reputation of an imposing state).

Likewise, Lindays (1986) classifies – following the three-goals identification made by Barber explained above- five objectives sanctions can reach: Compliance, subversion, deterrence, international symbolism and domestic symbolism.

In his work he analyses 19 empirical cases and evaluates the impact of sanctions with different criteria depending on the goal. In line with Barber study, he concluded that: If the goal is compliance, subversion or deterrence, sanctions are almost ineffective. However, in the last two cases (international and domestic symbolism), restrictive measures can represent an effective tool.

Looking at the Crimean crisis, it seems correct to affirm that the adoption of sanctions was also driven by the need of the Western world to defend the principle of territorial integrity and the respect of human rights. European countries probably knew Russia would not change its behaviour, freeing Crimea and interrupting to support rebels in Donbass, however the cost of inaction in front of the public opinion would certainly be worse.

Part of the literature addresses the effect of sanctions looking at the number of states involved. Two are the main strands in stark contrast: On the one hand, the more states are involved, the more restrictive measures can be effective. On the other, scholars sustain the contrary.

Historically, looking at empirical cases, the United States is the country that have more used this tool to reach foreign policy goals (Caruso, 2003; Jermano, 2018; Allen, 2018). The country has acted as main sender, or as guiding country; in the application of sanctions, some international

organizations, such as the United Nation has also played a fundamental role in coordinating countries for the implementation of restrictive measures.

Hufbauer et al. (2007) underlines that if sanctions are adopted by an international coalition, then the possibility of success are higher because the target country will find difficulties in circumvent the sanctioning regime; intuitively, when more countries are involved, the target's term of trade will be highly affected.

Dumas (1994) stands with Hufbauer in the strand in favour of multilateral sanctions: In order to damage the target's national welfare it is more effective to create an international environment where it is going to be much more costly for a target nation to find alternative markets or alternative sources of imports.

For whom sustaining multilateralism, the imposition of restrictive measures is seen as a collective good problem, with the need to identify a leader that guides the action. Hence, if a dominant state cannot be defined, free riding is most likely to happen. The problem of defection is addressed by a part of the literature that studies the issue with a game theory approach.

Returning to the number of senders involved, in defence of the other strand of the literature, it is possible to find the work of Kaempfer and Lowenberg (1999) that, using a public choice approach, have sustained the thesis that unilateral sanctions are more effective than multilateral: *"Although multilateral sanctions might indeed often produce greater terms-of-trade effects than unilateral sanctions, there is an important distinction between economic impacts of sanctions and political impacts".* As we were talking about free riding, the bigger the coalition imposing sanctions, the more a renegade country will gain by starting to trade again with the target.

Finally, the last argument for the definition of sanctions concerns their contents. Restrictive measures can limit exports to a target country (such as the ones imposed by the European Union to Russia), can affect imports from target countries (such as the ones adopted by Russia) or can interrupt financial flaws (Caruso,2003).

In accordance with Caruso's line of thought, Hufbauer (2007) sustains that import restrictions are less effective "*because target countries are able to find alternative markets or arrange triangular purchases to circumvent import controls". Hence, restriction on exports is the most used technique*.

However, Belin and Hanousek (2018) found evidence of the opposite. In their work, analysing the effects of sanctions imposed with the begin of the Crimean crisis both from the EU and from Russia, they could conclude that European sanctions on exports were less effective than Russian countersanctions on imports.

It must be said that this result is also driven by the composition of sanctions themselves, indeed the Federation has banned greater categories of goods; however, the authors conclude affirming that "*the difference in sanctions' effectiveness can be attributed to the broader range of sanctioned goods and potentially to a stronger position of enforcement of sanctions on imports rather than exports*" (Belin and Hanousek, 2018).

As already mentioned, the literature concerning the adoption of sanctions and their success is vast and controversy.

Hufbauer et al. (2007) presented an enormous work, consisting on the analysis of 174 cases of economic sanctions. The paper, that was constantly updated from its first version in 1985, is considered a masterpiece in the sanction's literature. They conclude that economic sanctions appear to be effective in compelling the target country to make concessions to the sender countries in about one third of cases. However, these findings were contested by part of the literature: Pape (1997), for instance, pointed out that the masterpiece (in its earlier version of 1990) in several cases coded as "successes" episodes that could not be considered so, thereby compounding the uncertainty surrounding their empirical findings – in the 2007 analysis Hufbauer et al. do not provide answers to the critics moved by Pape-.

He identified three principles for a stricter definition of success: Firstly, the target country fulfilled a significant part of the sender's demand; secondly, the adoption of sanctions precede the target's change in behaviour; thirdly, no other explanations can be attributed in the target's change. If Hufbauer et al. identified as success the 34% of the analysed cases, Pape, re-examining the methodology used, arrived to a consistently different conclusion: The author concluded that only 5% of the cases could be defined as successes.

Focusing on earlier studies, in 1967 Galtung proposed a complex analysis on the effects of sanctions considering the Rhodesian case. The author suggested that by adopting sanctions the target country's internal markets could be stimulated provoking perverse political responses. Defining vulnerability to sanctions as the dependence of the target country's economy on one product, the concentration of products exported and the concentration of trade-partners, Galtung concluded that self- sufficiency could make ineffective any kind of sanctions. In the next paragraph, I will recall Galtung's work in order to talk about the Import Substitution Plan adopted in Russia with the aim of making the country self-sufficient.

Game theoretic model suggests that sanction's success further depends on conflict expectations and the levels of commitment. Eaton and Enger (1992), introducing the concept of patience, define the success of restrictive measures as positively related to that of patience. They argue that, even

if sanctions have not an overkill function, they can succeed because of the patience of the sender. Basing my study on the work of Belin and Hanousek (2018) and Crozet and Hinz (2016), the natural experiment I will conduct in the next chapter is in line with a great part of the literature that sees with scepticism the effectiveness of sanctions. The analysis will not look at the compliance of the target in terms of changing behaviour: I will look at the effects of the restrictive measures on trades.

Moreover, this paper can be considered as complementary to those works that underline that the Russian crisis, with the decrease in oil prices and the devaluation of the rouble, is the main factor that caused a reduction in trade between the European Union and the Russian Federation. (Dreger et al., 2016; Ahn and Ludema, 2016; Crozet and Hinz, 2016; Belin and Hanousek, 2018). For instance, Dreger et al., basing their alysis on cointegrated VAR models, concluded that "the bulk of the depreciation is caused by the decline of oil prices".

year	Author	Type of classification	Findings
1967	Galtung	Controversial effects	Sanctions can stimulate the internal market of the target state
1971	Baldwin	Positive Negative	- Incentives - Bans
1973	Barber	Objectives	- Primary (change the behaviour of the target) - Secondary (reputation - Tertiary (international implications)
1986	Lindsay	Objectives	- Compliance - Subversion - Deterrence - International symbolism - Domestic symbolism
1992	Eaton and Enger	Game theory approach	Restrictive measures effectiveness depends on the concept of patience
1997	Pape	Effectiveness	Sanctions success: 5% cases
1999	Kaempfer and Lowenberg	Numb. of states involved	- Unilateral Sanctions
2003	Caruso	Content	- Limit to exports - Limits to imports - Interruption of financial flaws
2007 1994	Hufbauer et al. Dumas	Numb. of states involved	Multilateral Sanctions
2007	Hufbauer, Elliot, Oegg and Schott	Intensity	- diplomatic measures - travel bans; assets freezes - eonomic sanctions
2007	Hufbauer et al.	Effectiveness	Sanctions success: 34% cases
2016	Crozet and Hinz	Effectiveness	Studying the Russian case: Ineffectiveness of sanctions
2019	Belin and Hanousek	Effectiveness	Studying the Russian case: Russian sanctions are more effective than European ones

Table 3- To sum-up, review of the literature

3.3- Empirical Estimation

In this section an empirical analysis will be provided. As anticipated, I will use the Difference-in-Differences model to assess if sanctions impacted European exports or, as argued in the thesis, they do not play a major role on the commerce.

The Difference-in-Differences (DID) model is one of the most popular tools for applied research in economics to evaluate the effects of public interventions and other treatments of interest on some relevant outcome variable.

Card and Krueger's work of 1995 is pillar in the DID literature. Their study provides evidence of the effectiveness and applicability of the model. Their paper studies the effects of a policy applied in New Jersay by comparing it to Pennsylvania where the policy was not applied. Indeed, in 1992 New Jersey decided to raise the minimum wage from $4.25 to $5.05 per hour, while Pennsylvania did not. To evaluate the impact of the law they surveyed 410 fast-food restaurants in New Jersey and eastern Pennsylvania before and after the rise. Comparisons of employment growth at stores in New Jersey and Pennsylvania (where the minimum wage was constant) provide simple estimates of the effect of the higher minimum wage.

Conventional economic theory would suggest that a rise in the minimum wage leads perfectly competitive employers to cut employment. However, Card and Krueger, in line with studies based on cross-sectional time-series comparisons of affected and unaffected markets or employers, find no evidence that the rise in New Jersey's minimum wage reduced employment at fast-food restaurants in the state.

I will now proceed by providing the main characteristics and hypothesis of the DID model. The last part of the paragraph will deal with its application to our study-case. At the end of this section we will finally be able to assess if sanctions impacted trades between the European Union and Russian Federation or on the contrary, as supposed, they do not affect European exports towards Moscow.

Firstly, Diff-in-diff model does not need the introduction of further variables for the evaluation of sanctions. Indeed, restrictive measures' effects will not be assessed through the introduction of a host of other variables that will look at changes in a target policy. Studying the changes in exports, we can observe the direct effect of the restrictive measures.

The DID estimator can be applied to natural experiments, where two groups are identified: The first group is subject to a treatment, this group will be called 'treatment group'. In the second group no treatment will be applied, the second group will form the 'control group'. All the assumptions valid for the Ordinary Least Squares (OLS) method are applied to the DID model. However, the

latter is based on one further assumption: The parallel trend hypothesis. It requires that in the absence of treatment, the difference between the 'treatment' and 'control' group is constant over time. Moreover, the Diff-in Diff model can be applied in the case of natural experiments: The sanctioned commodities can be considered selected randomly, not on primarily economic grounds. Indeed, *"in this case, the alliance between the US and the EU created powerful incentives to cooperate against Russia, despite the misgivings of individual states. Thus, the selection into sanctions may be viewed as nearly-randomly assigned, opening a unique widow into the effectiveness of international sanctions."* (Belin and Hanousek, 2019).

The difference in difference (or "double difference") estimator is defined as the difference in average outcome in the treatment group before and after treatment minus the difference in average outcome in the control group before and after treatment.

The model is based on a clear intuition: It is possible to evaluate the effect of a policy by comparing a group subject to the policy to a second group that will not be affected by the policy, considering the two different periods -before and after the introduction of the policy.

Figure fifteen graphically explains the application of the model.

When only a section of the population is exposed to the treatment, an untreated comparison group can be identified in order to verify temporal variation in the outcome that is not due to treatment exposure.

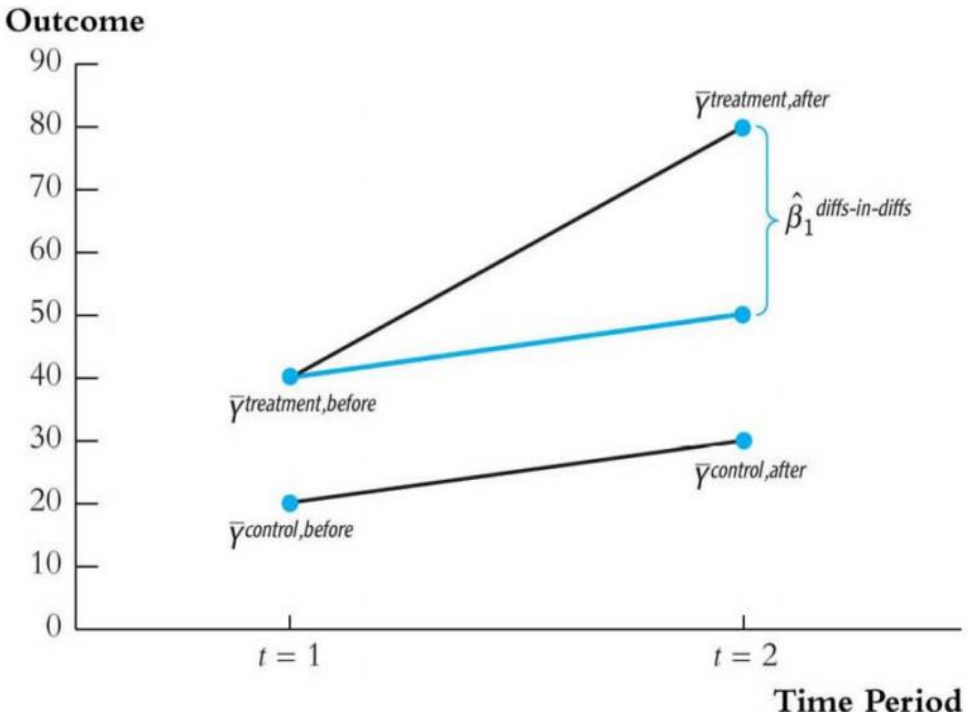

Figure 15- Diff-in-Diff graphic explanation
Source: Warton, Parker and Carter 2016

"Many policy analyses rely on panel data in which the dependent variable differs across individuals but at least some explanatory variables, such as the policies being studied, are constant among all members of a group" (Donald and Lang, 2007).

The Russian case on sanctions, hence, represents a perfect natural experiment for the evaluation of the effectiveness of sanctions through the application of the Diff-in-Diff.

The dataset used for the analysis is constructed from COMTRADE, the largest depository of international trade data maintained by the United Nations Statistics Division (Belin and Hanousek, 2018).

It is composed by data on exports to Russia from three major European partner: France, Germany and Italy. The original idea presupposed to assess the effects of Russian sanctions imposed to the European Union. However, the Kremlin decided to apply sanctions at the 4^{th} digit level of the Harmonized System (HS). Consequently, Russian sanctions cover a vaster category of commodities, making hard or almost impossible to find near-substitutes goods. On the contrary, the European Union imposed a system of sanctions that banns goods at the 8^{th} digit. This level of specificity made possible to identify goods that shares the first 4 digits with the sanctioned commodities, thus, belonging to the same sectors. Hence, they can represent a valid counterfactual of the sanctioned goods. However, it would not be correct to consider that the counterfactuals trend represents the tendency sanctioned goods would have followed in the absence of sanctions.

The database created analysis exports of 25 commodities. Twelve of them subject to the sanctioning regime, identifying the treatment group. The other thirteen commodities share with the treatment group the first 4 digits in the HS, thus representing perfect substitutes of the banned goods and constituting the control group. Hence, the sample is composed by products belonging to the same 4-digit HS category.

In this way, we will be comparing sanctioned and non-sanctioned products that nevertheless belong to a broadly comparable category thereby avoiding contamination of results stemming from different dynamics of trade flows of very different product categories (Bena and Jurajda, 2011).

The COMTRADE dataset provides, in addition to the trades value expressed in millions of US Dollars, the quantity commercialized. However, since quantities reflect the unit of measurement for each type of good separately (meters, gallons and so on), they cannot be compared across different products. Thus, estimations will be assessed looking at the value of trades, expressed in millions of US dollars.

The collection of data goes from 2012 to 2018. From the available dataset of exports to the Russian Federation of sanctioned goods and their substitutes provided by COMTRADE, I created a new

dummy called tariff. This dummy will be the indicator of the sanctioned status: It will be equal to 0 if the commodity is not banned, 1 in the opposite case.

Some limitations in the dataset occurred because of the unavailability of some data: Flows from 2018 were not available for all commodities nor for all the States considered. However, their inclusion can give a partial vision of the latest developments.

Before we get into the estimation of the model, explaining the regression used and analysing the results, it is useful to introduce some graphs from the dataset that will make me able to explain some dynamics in the export's trend.

Eight more dummies are generated for the construction of those graphs. The first two variables called sum0 and sum1 provide respectively the sum of trade values for non-sanctioned and sanctioned commodities by year.

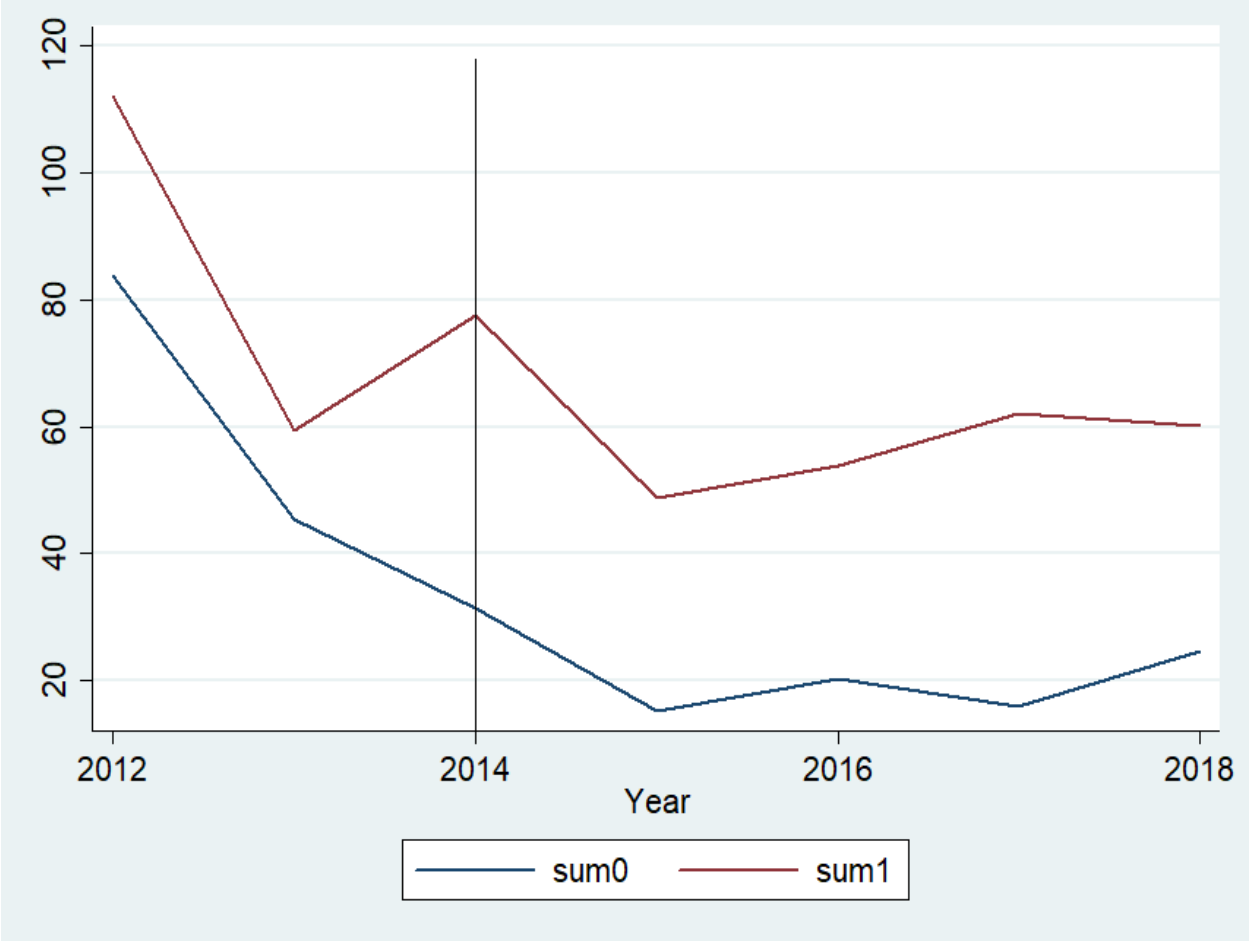

Figure 16- Exports trend, 2012-2018
Source: UNCOMTRADE Database

Keeping in mind that 2014 represents the turning point as a consequence of the application of sanctions, it is evident that already in 2012 both categories of commodities, those sanctioned and non-sanctioned, were declining. Non-sanctioned goods follow quite constantly a negative trend until 2015. The trend for the sanctioned commodities gives us some clues on the real effect of sanctions: In 2014 the decrease is evident, however, from the following year exports grow gradually and constantly. The graph provides some insights that are fundamental for a first analysis on the impact of sanctions.

Firstly, the sanctioned commodities' trend shows evidence that other factors influence its performance: From 2015, exports of banned goods increase even though the sanctioning regime is still in force.

Secondly, the two categories almost follow the same trend. This is a major confirmation that Russia had to adjust its imports in relation to other factors. If restrictive measures had a higher effect on the exchange between the countries, exports of non-sanctioned commodities would have significantly increased as a consequence of the detriment of sanctioned products' exports, considering the two categories as perfect substitutes. Lastly, as mentioned in the first chapter, Russia started its recovery from its latest economic crisis in 2015/2016. If we consider the total amount of exports, thus the sum of sanctioned and non-sanctioned commodities, it starts to increase after 2015, when the country was emerging from the crisis.

As mentioned above, the research is conducted considering three major Russian partners from the Euro area: France, Germany and Italy. This choice depends from two main issues: Firstly, in the COMTRADE Database, data are not provided for the European Union as a whole. Secondly, since I could not analyse exports at the EU level, I selected these three states due to their economic proximity to Russia.

The other six dummies created regard each state. Indeed, with the purpose of providing an overview at state-level on the effects of sanctions, I created for each state two variables, one representing the sum of sanctioned goods for each year (sumF/G/I 1) , the second as the sum of non-sanctioned goods (sumF/G/I 0). A state-level analysis can be useful to observe if sanctions affected each country uniformly or not.

Figure seventeen traces exports from France to Russia, sumF0 represents the sum of non-sanctioned goods while sumF1 represents the trend for sanctioned goods. It is evident that, for non-sanctioned goods, a sharp decline in exports occurred from 2012 to 2014, this is a major

confirmation that Russia, due to the oil crisis and the devaluation of the Rouble could not continue to import the same quantities.

Furthermore, in line with trends in figure 1, in 2016 exports increase significantly. One could underline that in the last year sanctions substantially affected the commerce, however the 2018 level of exports almost equals the pre-treatment level.

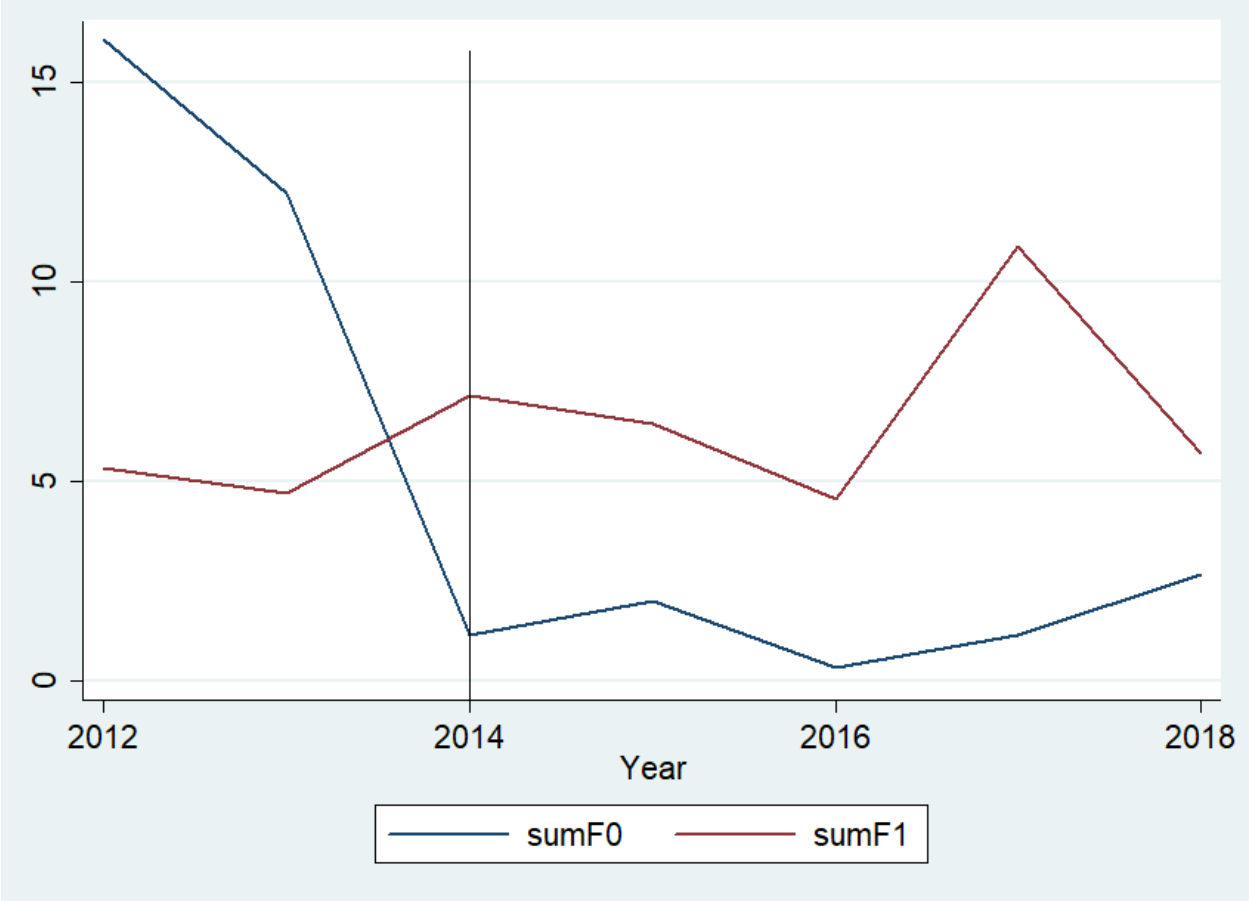

Figure 17- France exports to Russia, 2012-2018
Source: UNCOMTRADE Database

Thus, doubtfully I would affirm that the 2017/18 negative trend is mainly a consequence of the effect of sanctions.

In figure three the same quantity-year graph is provided concerning Germany. The tendencies reflect the ones see in the above graph. The German case shows clearly and undoubtedly that exports for the two categories follow the same path, thus, confirming that various factors influence the capability of Russia to import. Even if sanctioned goods exports did not reach the pre-crisis level, however, exports are constantly increasing from 2016.

The last graph looks at the Italian case. Russia has always been an important partner for Italy, the tradition of collaboration is long-lasting.

As in the precedent cases, trends and dynamics are almost the same. Italian and Russian economies are considered as complementary, thus, the level of trades and integration between the two countries has always been high.

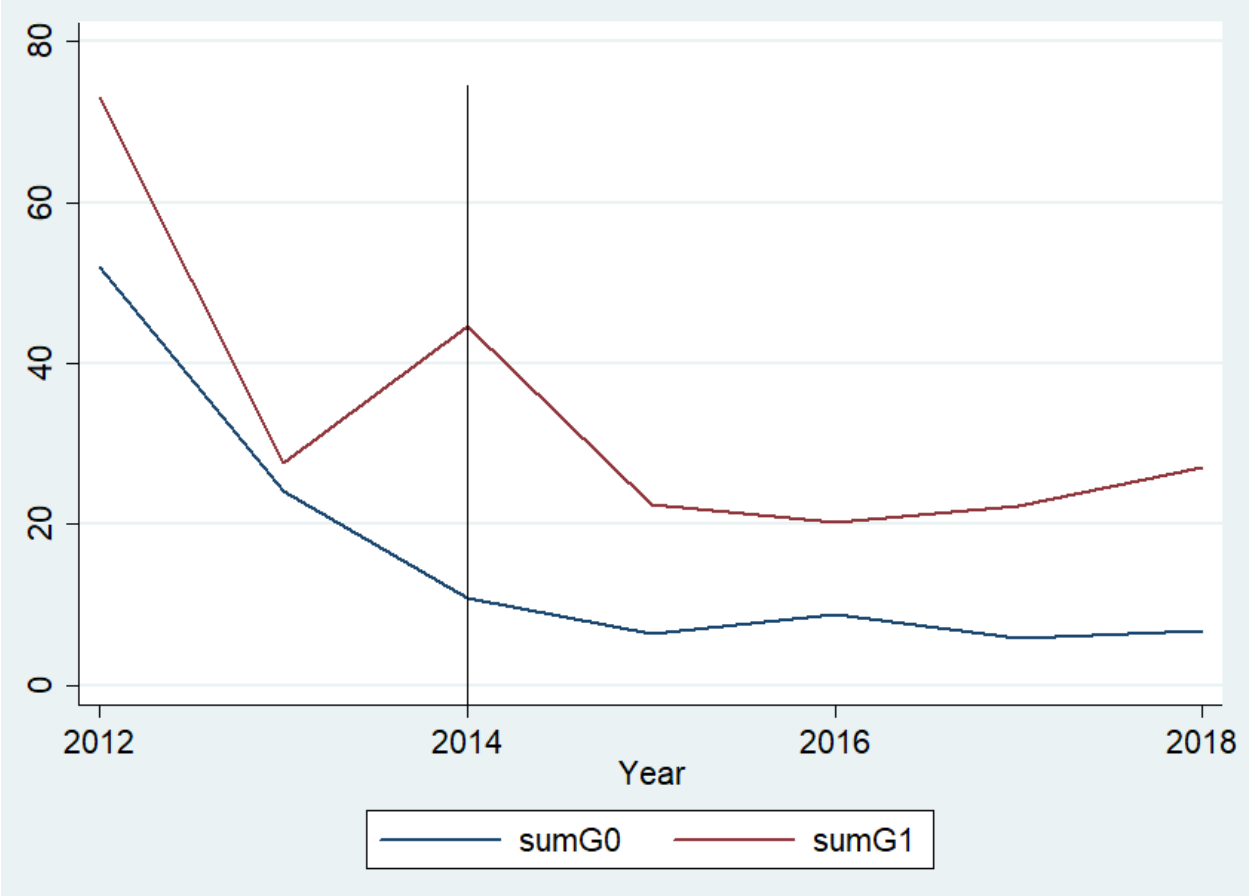

Figure 18- German exports to Russia, 2012-2018
Source: UNCOMTRADE Dataset

With the amelioration of the Russian economy, higher exports can be registered in the two categories.

Moreover, it must be noted that Italy is now exporting sanctioned commodities above the pre-crisis level. As further confirmation of the partiality of sanctions in affecting exports, the non-sanctioned goods experienced a sharp decline in 2014, much greater than the decline for the sanctioned category.

The graphic analysis reported above anticipates the results derived from the application of the difference in differences model.

The empirical analysis will now begin with the introduction of the hypotheses, the presentation of the equation that will be regressed, and finally results will be commented.

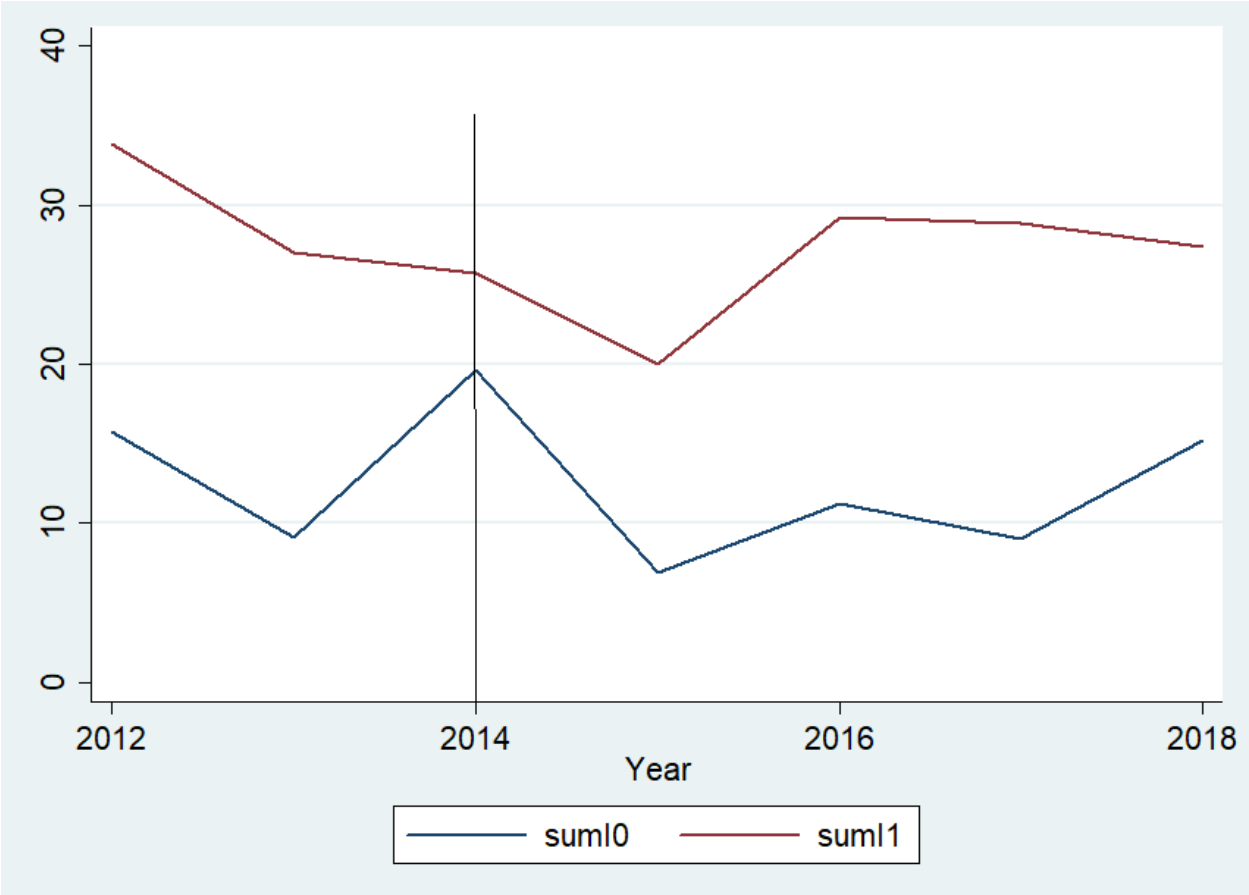

Figure 19-Italy's exports to Russia, 2012-2018
Source: UNCOMTRADE Database

The statistical model identifies as null hypothesis, H_0, the influence of sanctions in the level of exports. While H_1, the alternative hypothesis, determines that no correlation between sanctions and exports occurred. Above, a description of the model has been provided, hence, it is now possible to present the regression equation applied to the dataset and observe the findings.

$$Y_{i,t} = \alpha + \beta_1 T_i + \beta_2 A_t + \beta_3 T_i * A_t + \varepsilon_{i,t}$$

Where Y represents the value of exports to Russia. Y is classified as the dependent variable, its value it's determined by the dichotomic independent variables, T_i and A_t. Variable T, tariff, represents the status of each good i, that will be equal to one if goods are sanctioned and zero in the opposite case. Dummy A_t is related to the temporal sphere, it will be equal to zero for the pre-treatment years while the value one will be attributed in the post-treatment observations. The third factor, tariff_after, correlates the sanctions status with their temporal introduction, thus estimating if a dependency between sanctions and profits from exports exists.

In Table 1 results from the estimation have been reported. β_1 represents the average difference between the export's value of the sanctioned goods and non-sanctioned ones. The p-value is far

much higher than 0,05, hence the estimator is not significant. It suggests that there is the 84%of probability that the value is not different from 0. Further confirmation could be found in the confidential level: With a confidence interval established at the 95% the range contains the value 0. Looking at the second line, β_2 estimates the average difference between exports value as a whole, after and before the imposition of the restrictive measures. Considering that the p-value in this case is lower than 0,05, it means that the estimator is significant. The significance of the p-value does not mean that we can accept the null hypothesis, yet it provides important insights. Indeed, interestingly, the coefficient (-2093390) is a negative number. Thus, we can affirm that the exports value after the adoption of sanctions experienced a decrease in its value. However, we cannot affirm that the decline in exports is a direct consequence of the implementation of the restrictive measures. It will be more plausible that the decline as a whole in the exports value can be related to different and various causes.

Trade Values	Coefficient	Standard Error
Tariff (β_1)	-196083.1	881210.2
After (β_2)	-2093390**	809762.2
Tariff_After (β_3)	1434829	1059224

** estimation significant, ~ 0,05.

Table 4- Statistical results

Lastly, β_3 expresses the most important value in order to verify whether the null hypothesis H_0 can be accepted or rejected in favour of the alternative hypothesis H_1.

As in the case of β_1 the p-value is higher than 0,05. This means that the estimator is not significant and that the null hypothesis cannot be accepted. Finally, it is possible to conclude that there is a 18% of probability that the value is not different from zero, and the alternative hypothesis can be accepted. The estimator underlines that the average difference of non-sanctioned and sanctioned goods before 2014 is higher than the same difference concerning commodities after 2014.

Hence, the rejection of the null hypothesis makes it possible to accept the alternative hypothesis that confirms the uncorrelation of sanctions with the decline in exports to Russia.

Conclusions

In politics, it is usually difficult to objectively assess where the truth lies. This applies to economic sanctions as well. Indeed, they have a double nature: On the one hand, they are concerned with trades, and economic relations between international actors. However, on the other, they are a policy tool, hence possessing a political inner nature. My prime interest in the Russian sanctions case derived from this political essence. Indeed, during my studies I had the chance to study for a period in Moscow. The perception of the Crimean crisis, followed by the adoption of sanctions respectively by the EU and the Russian Federation, is diametrically opposed from the western conception.

During this period, by confronting the Western and Russian views, I came to the conclusion that the implementation of EU sanctions towards Russia has usually been exploited by some Member States political forces against European Institutions.

The thesis contributes to the vast literature on economic sanctions by proposing a study on the impact of restrictive measures applied to exports. Precisely, it aimed at investigating if a correlation between the decline in exports from European countries towards Russia and the adoption of sanctions can be assessed.

The concept of success in the thesis is not related to a change in the undesired target behaviour as part of the literature does (Pape, 1997; Hufbauer et al, 2003; Portela, 2010). Firstly, the research question scrutinises the ability of EU sanctions to affect exports towards Russia. Doubts on their effectiveness come from the fact that in the same year sanctions were applied, the Russian Federation entered a strong economic crisis, hence the reduction of exports are mainly a consequence of the economic weakness of Moscow.

Fixed the research question, it is in the light of this that we have to read the analysis conducted in the first two chapters.

The economic analysis of Russia leads to two fundamental conclusions: Firstly, it shows that the Russian economy has always relied on oil and gas exports. The historical analysis of the economy shows that when crises occurred in the energy sector, the entire Russian economy experienced a deterioration. Secondly, the analysis of the Ukrainian economy stresses out that their economic interconnections run deep. Although a profound crisis emerged from the Crimean annexation, Ukraine is not, and will never be, able to totally turn its back to Russia because of its vital bond with Moscow.

Moreover, it is possible to conclude that the geopolitical crisis is the outcome of the ancient common history shared by Russia and Ukraine. For geopolitical and geographic reasons, Ukraine, and in particular Crimea, represent an inalienable ally.

The Kremlin could never accept to lose its influence over Kiev. As they saw Ukraine ready to sign an Association Agreement with the European Union, they re-affirmed Russian influence over the territories.

The analysis of the sanctioned goods by both parties leads to two relevant suggestions in examining the logic that led the process: Firstly, the Union, while adopting sanctions, had to bear in mind that they strongly depend on Russian exports of oil and gas. Hence, they acted cautiously for the fear of possible retaliations in the sector. Secondly, Russia decided to counteract by sanctioning imports in its weaker sectors, agriculture and dairy products mainly. As it was argued in the third chapter, the Kremlin had simultaneously launched an import substitution plan with the aim of attaining self-sufficiency.

As recognized above, the literature on sanctions is vast and the debate on their effectiveness is still ongoing. I conclude that assessing their effectiveness by the ability in changing the target undesired behaviour is misleading: As underlined by vast part of scholars (Barber, 1973; Lindays, 1986), other several goals are pursued by leaders when applying a sanctioning regime.

In line with preeminent studies, (Belin and Hanousek, 2019; Dreger et al., 2016; Ahn and Ludema, 2016; Crozet and Hinz, 2016) the difference in differences estimation leads to affirm that the dependency of the reduction of export to Russia is mainly caused by the lower oil and gas prices, that led to a heavy depreciation of the Rouble.

Indeed, the model identifies as null hypothesis, H_0, the influence of sanctions in the level of exports. While H_1, the alternative hypothesis, determines that no correlation between sanctions and exports occurred. The estimator results as not significant because higher than 0,05, the level of confidence established. Hence, the rejection of the null hypothesis makes it possible to accept the alternative hypothesis that confirms the uncorrelation of sanctions with the decline in exports to Russia.

In conclusion, very little progress has been made from 2014. Russia does not seem willing to return Crimea to Ukraine, in addition, the Donbass war is still ongoing, and negotiations are far from the conclusion of an agreement. Future scenarios could include:

- Leave the sanction regime, giving a political signal of the permanent rejection of the annexation;
- Withdraw the application of the restrictive measures and return to business as usual;

- They can maintain the objectives but adjust the sanctions or vice versa;
- Redetermine both sanctions and objectives (Smeets, 2018).

In April 2019, Presidential elections were held in Ukraine. Mr. Zelensky won the ballotage against the former president. During the campaign, He recalled the need of a ceasefire and adopted it as one of its main electoral promises.

However, from May, no real change has occurred. Even if He seems really committed to finding a solution to the conflict, the Kremlin continues in provoking Kiev: Recently, President Putin announced a plan to give out Russian passports to residents of the conflict-hit, Russian-speaking Donbass area of eastern Ukraine.

In August, the two leaders were discussing for a possible exchange of prisoners, however, talks ceased.

According to the scenarios delineated by Smeets, leaving the sanctions regime, giving a political signal of the permanent rejection of the annexation seems to be the more valid option. If a solution must be found, and is more likely to be found, for the Donbass conflict, Russia will never accept to renegotiate its sovereignty over Crimea.

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On the Effects of Sanctions: the Russian case

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Summary

Introduction

The annexation of Crimea by the Russian Federation, in March 2014, opened a series of crisis: Firstly, an ongoing conflict between Russia and Ukraine over border areas, and secondly, a deterioration in political and economic terms between Russia and the international community, in particular with the United States of America and the European Union.

Indeed, the illegal incorporation of the Crimean Peninsula brought the Western world to adopt a restrictive measures' regime against Moscow. In response, the Kremlin worked in order to establish its own retaliations.

A paradox pervades the debate on the effectiveness of sanctions: Although most of the literature generally concludes that restrictive measures are not successful if their effectivity depends on a change in the undesired behaviour of a target country, still this tool is largely applied by policy makers. As underlined by Baldwin (1999), it is of prime interest to recognize that policy makers could pursue a spectrum of goals that goes beyond the mere change of an unacceptable conduct, hence the question of whether sanctions "work" may be separated from the question of whether they should be used. The thesis will concentrate mainly on the European sanctioning regime, focusing on the consequences derived by the crisis. I decided to concentrate the work on the EU sanctions, excluding the US ones, because the Union largely depends on Russia for the supply of oil and gas. Hence, decisions on the content of sanctions had to take into account further possible negative developments in this sector.

The debate on the effectiveness of sanctions is long lasting and controversial. As underlined by many studies, first and foremost the one proposed by Belin and Hanousek (2019), it is a field of difficult access to empirical scrutiny due to the scarcity of natural experiments on the issue. The sanctioning regime introduced both by the Atlantic coalition and Russia, represents an opportunity in assessing the effectiveness of sanctions. As a matter of fact, a natural experiment can be applied in order to investigate on the effects of these policies.

Research Question

I will try to contribute to the debate on sanctions efficacy providing an estimation, based on a Difference-in-differences model, that will evaluate the possibility of establishing a correlation between the decline in exports of specific commodities from the European Union towards Russia and the introduction of sanctions.

Before presenting the structure of the thesis, it is of prime importance to explain the research question: Have European sanctions impacted exports to Russia? The aim of the thesis is, indeed,

to assess whether Moscow suffered from the imposition of the restrictive measures. Politically speaking, sanctions towards Russia have been usually used by Member States' internal political forces in order to discredit European institutions. However, the analysis proposed will explain that even if it is true that EU exports towards Russia declined from 2014, in any case, the reduction was caused by other factors, mainly the economic crisis connected to the decline in oil prices that led to a strong devaluation of the rouble, experienced by Moscow in the same year sanctions were introduced. It will be possible to reach this conclusion after having applied a Diff-in-Diff model, estimating a regression that will investigate the correlation between the value of exports from France. Germany and Italy of 25 commodities, sanctioned and non-sanctioned, in a period of time between 2012 and 2018.

First Chapter- Russian and Ukrainian Economic Analysis

In the first chapter, a review of the Russian and Ukrainian economy will be presented. The analysis of the Russian economic system is essential to underline the clear reliance Russia has on revenues from its oil and gas sectors. This strong dependency makes Russian economy vulnerable to any change in the oil and gas prices. The collapse of the USSR led to a reorganization of the economic system. Indeed, the country had to abandon a planned economy to let the rules of the free market play. Moreover, the State completely failed in the creation of an efficient private sector. During this period the economy was characterized by high inflation and a negative GDP, in 1998 the crisis reached its climax. As a matter of fact, 1998 saw one of the strongest oil price crises, that affected Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC countries. From 1999, the country started its recovery, and experienced a period of growth that caused great consensus for the neo-elected President Putin. From 1999 to the 2008 crisis Russian economy and the conditions of life ameliorate: "*2007 saw Russia ranked in the top 10 largest economies with a GDP that equalled $1.29 trillion. Growth was boosted thanks to a context of strong energy prices, substantial capital inflows and a rapid expansion of domestic demand." (Cooper,2009).*

The 2008 World financial crisis hit Russia as well. The dependency on the oil and gas sector caused economic recession and complete stagnation. However, the country managed in the fight against the crisis thanks to the relevant financial reserves accumulated during the last decade.

Real consequences of the 2008 crisis exacerbated in 2014. Russian economy was already slowing in 2013 because the economic model, that was based on revenues from the oil and gas markets, started to be less of a driving force. In 2013, the economic growth was one-third of the 2011 one. In the following year, the oil prices were quickly declining causing a strong depreciation of the

Rouble. In fact, "*between mid-2014 and early-2016, crude oil prices have fallen from a high of around $100 per barrel to about $30 per barrel, cutting deep into the country's major source of revenue*." (Kupper, 2018).

This analysis aims at supporting the thesis that the Russian economy strongly relies on oil and gas exports: The three crises mentioned above, 1998, 2008 and 2014, have a clear connection with changes in the energy sector. Looking at the 2014 crisis, the decrease of the price of a barrel, that caused a depreciation of the Rouble, is the main factor that triggered the decline in the terms of trade between the Union and Russia. Indeed, it will be argued that sanctions (those imposed by the EU) had a modest impact on the reduction of the exchange between the two actors.

Hence, the first chapter already provides a general and vague response to the research question. Indeed, data concerning international trade with Russia are provided. Coherently with a strong strand of the literature, it is underlined that the major factors causing the decline in trade with Russia must be found in the fall of oil prices and the devaluation of the Rouble (Kupper, 2018; Dreger et al., 2016; Ahn and Ludema, 2016; Crozet and Hinz, 2016; Belin and Hanousek, 2019). Indeed, a compression of revenues deriving from the oil and gas sector crisis, strongly reduced Russian purchase power and eventually caused a reduction of the demand of foreign goods. In 2017, as economic conditions improved, exports from European countries started to increase as well.

The last paragraph of the first chapter provides in a similar way an overview of the Ukrainian economy. Ukraine has always been allied with Russia. It will be argued that the economic relations with the Kremlin are vital for the country. The two countries experienced the same economic cycles: As it was for Moscow, the last decade of the 20th century was characterized by high inflation and recession. In 1998, Russian default triggered a financial crisis in Ukraine that led to massive capital outflows and a strong depreciation of the currency that lost the 80% of its value. Recovery occurred at the beginning of the new century quite quickly thanks to the implementation of salient reforms such as the adoption of legislations for WTO accession, a better protection of intellectual property rights, liberalization of many business activities, the payment of wage and pension arrears, the elimination of barter trade, a better legislation on money laundering (Segura, 2014).

With the annexation of Crimea and the beginning of the Donbass war, the economic situation collapsed bringing the GDP to negative levels. The Donetsk and Luhansk regions are of fundamental importance because of the high presence of industries. The Separatist area represents only the 4% of the Ukrainian territory but contributes largely to the economic output: 14% of

exports came from these zones, 12% of the total industrial production and 9% of GDP (EIU, 2017). The annexation of Crimea and the hostilities therefore were the main reasons for the large economic decline that Ukraine suffered: Exports decreased by about 22% in two years, as exports represented about 45% of GDP, this led to a drop in the GDP by 6.8% in 2014. About two-thirds of the drop of exports were due to declines in exports to Russia, Belarus and Kazakhstan, which diminished from 32% of the total in 2012 to 23% in 2014 and to 10% in early 2015 (OEC). However, from 2017, Russia regained its first trader position.

Second Chapter- General Trends: Geopolitical Analysis and Sanctions Regime

The strong economic relations that occur between the two countries, coexist with historical and cultural dynamics that deeper unify Ukraine and Russia. In the second chapter it will be stressed that these States share common ancient roots, and to some extent, these relations are crucial for each other.

Historically, it is fundamental to recognize that the Crimean Peninsula was part of Russia until 1954, year in which Nikita Khrushchev transferred it to Ukraine, as a gift. In 1991, with the collapse of the Soviet Union, Ukraine became independent and its boundaries contained the Crimean Peninsula. Due to the ethnic peculiarity of the country, the State decided to give Crimea a special status: Autonomous Republic, with its own constitution, developed within Ukraine law. Indeed, according to the 2001 census (the last census available) the Peninsula is mostly populated by Russians (58%). However, it would be misleading to think that the Kremlin acted just in the name of the cultural proximity to Crimea: Other, more important, factors have played a major role. Indeed, President Putin decided to annex Crimea in the exact moment Ukraine was starting its process of integration with the European Union. The Ukrainian President, Yanukovych, decided not to sign the Association Agreement with the EU in November 2013, under great economic pressure from Moscow. In fact, three days before signing, Ukraine made an agreement with Russia, the latter lent 15 billion of Dollars to Ukraine and asked not to proceed towards the European Union. It was unacceptable for President Putin to lose such an important country, that could eventually become a member of the NATO. As turmoil started, Crimea called for a referendum on two issue: Firstly, the independence from Ukraine, and secondly, the annexation to Russia. Most of the population voted in favour of both statements and in March President Putin announced the official annexation of Crimea to the Russian territory. Riots exploded as well in the Donetsk and Luhansk regions: as in the case of Crimea, both regions declared their independence from Ukraine, however no Russian intervention occurred in order to annex the areas. In these two zones conflicts

are still ongoing. Recognizing that the conflict is still open, finding an agreement to an end could be the first step to normalize the Russia-Ukraine relations and put an end to the sanctions' regime. Talks and negotiations led to signing two consequent agreements: The first Minsk Agreement in September 2014, that however was quickly violated. The second pact echoed the first one, recalling as a priority the imposition of an immediate ceasefire. It also called for the creation of a security zone, in order to provide safe access, delivery, storage and distribution of humanitarian aid to the needy. It presented the steps to follow in order to arrive to free local elections and, most important, it stated the necessity to restore the control of the Ukrainian State over the territories occupied and to implement a Constitutional Reform based on decentralization. The second Minsk Agreements were, as well, not respected.

The European Union subordinates the easing of sanctions mainly to the implementation of the agreements. Since this condition will occur with difficulties, sanctions are still in place from 2014 with a view to increasing the costs of Russia's actions to undermine Ukraine's territorial integrity, sovereignty and independence and to promoting a peaceful settlement of the crisis.

The European Union decided to ban mainly exports of dual-use items: Thus, affecting mainly three sectors, the oil sector, foreign investments and equipment and technologies sectors. According to the analysis conducted by the Macro Advisory Panel (2017), sanctions helped the oil sector that was forced to become more efficient, they were neutral in the other two fields. Russia, on the other side, limited imports of foodstuff and dairy products. There is a double rationale behind this choice: Firstly, Western producers were hardly hit, secondly, sanctions stimulated domestic markets with higher investments and consequently higher production, making Russia self-sufficient.

Russia's sanctions compared to the EU's ones are way broader, they limit entire categories of products because they were imposed at the 4th digit of the Harmonized System (HS). In opposition, the EU sanctions are specific and targeted to determined goods, indeed, goods were classified at the 8th digit of the HS. As shown from Belin and Hanousek (2019), this led Russian sanctions incredibly more effective than the ones undertaken by the EU. The chapter continues providing a brief analysis of the Import Substitution Plan promoted by the Kremlin. It shows that internal goods benefited from a slice of cake of the market that was earlier occupied by foreign products. Even though, it is difficult to truly establish if the Plan can be considered successful, it represents a first step in the development of industries, principally in the agricultural -food sector.

Import Substitution Plan has to be read in light of a complex will, it is one of the measures that should help Russia in gaining more *"economic sovereignty"* - economic sovereignty can reduce vulnerability to political pressure from foreign powers, as defined by Connolly and Hanson (2016).

Third Chapter- Between the Hammer and the Anvil: the Respect of International Laws vs. Petroleum Dependency

Finally, the last chapter begins with an insight on the legal framework for the adoption of restrictive measures by the European Union and a review of the literature on sanctions. In the last part of the chapter an empirical analysis will be provided, in order to respond to the research question, demonstrating that no evident correlation can be established between the adoption of sanctions and the reduction of exports to Russia.

Considering the EU legal framework, the literature has not found an agreement over when the EU power of imposing sanctions has begun. The adoption of the Maastricht Treaty represents a turning point: with the division in pillars provided by the Treaty, an independent sanctioning regime was codified, belonging to the second pillar, Common Foreign and Security Policy (CFSP). Ultimately, officially the European Union acquired its own powers for the adoption of restrictive measures.

The power to trigger the process -through suggestions- stands in the hand of the High Representative of the Union for Foreign Affairs and Security Policy (with the support of the Commission, as well) or any Member State. In the Foreign Affairs Council, a generic proposal is reported for a first reading, it then moves to the Political and Security Committee (PSC). The body analyses it in depth. A further inspection is undertaken by the competent geographical working groups of the Council. At this stage, discussions and negotiations between Member States begin, and end when consensus is reached. Afterwards, the Foreign Relations Counsellors Working Group (RELEX) receives the approved document. In this body, each restrictive measure is scrutinized, establishing the concrete and specific measures to undertake.

Finally, the Committee of Permanent Representatives II (COREPER II) and then the Council must approve the proposal by consensus. The European External Action Service (EEAS) plays also an important role in the procedure: at any of the stages previously discussed, it has the responsibility to make suggestions on the measures to undertake, whom to target with sanctions. It is also responsible for presenting drafts of the new legal base to be then negotiated in detail within RELEX. (Giumelli, 2013).

The analysis continues with the review of the vast literature on sanctions.
It seems correct to affirm that if the success of sanctions is defined as the change in behaviour of the target country, then, the literature does mostly agree in assessing that sanctions are ineffective (Hufbauer et al., 2007; Pape,1997). Hufbauer et al. (2007) presented an enormous work, consisting

on the analysis of 174 cases of economic sanctions. They conclude that economic sanctions appear to be effective in compelling the target country to make concessions to the sender countries in about one third of cases (34%). However, these findings were contested by part of the literature: Pape (1997), for instance, pointed out that the masterpiece (in its earlier version of 1990) in several cases coded as "successes" episodes that could not be considered as such, thereby compounding the uncertainty surrounding their empirical findings. In its findings Pape concluded that only the 5% of the cases analysed by Hufbauer et al. could really be considered as successful.

The literature on sanctions developed by considering other factors than the mere change in an unwanted behaviour. Otherwise, it would have been difficult to explain why sanctions are still a common tool even though their ineffectiveness. Barber (1973) and later Linsday (1986) promoted a system of 5 goals. The change in the undesired action by the target country represents the primary goal. The second concerns deterrence and the third subversion. The last two goals are related to the domestic and international reputation of the sender country.

Part of the literature, mainly based on the studies of Galtung (1967), instead, introduced the concept of *vulnerability* in evaluating the effects of sanctions. A country's level of vulnerability depends on the degree of concentration of the economy: Its reliance on one product, the concentration of products exported, and the concentration of trade-partners. Moreover, Galtung underlined that the adoption of sanctions can indirectly stimulate the target internal market. Finally, the analysis carried out will look at the effects of the restrictive measures on changes in the value of exports from France, Germany and Italy towards the Russian Federation.

Recalling the research question focused on the correlation between the imposition of sanctions and the reduction in exports to Russia, I constructed a dataset composed by observations from 2012 to 2018 of 25 commodities, subjected and non-subjected to the policy, that can be defined as substitutes, because they share the first 4 digits of the HS. The original idea was to analyse trends at European Union level. However, UN Comtrade does not provide data for the entity. Hence, I chose France, Germany and Italy as the main European exporter.

The graphic elaboration of the dataset already presents important findings. Firstly, the sanctioned commodities' trend shows evidence that other factors influence its performance: From 2015, exports of banned goods increase even though the sanctioning regime is still in force. Secondly, the two categories almost follow the same trend. This is a major confirmation that Russia had to adjust its imports in relation to other factors. If restrictive measures had a higher effect on the exchange between the countries, exports of non-sanctioned commodities would have significantly increased. Lastly, as mentioned in the first chapter, Russia started its recovery from

its latest economic crisis in 2015/2016. If we consider the total amount of exports -the sum of sanctioned and non-sanctioned commodities- it starts to increase after 2015, when the country was emerging from the crisis. In the thesis, graphs for each country are provided. These graphs also confirm the trends explained above. The reported graphic analysis anticipates the results derived from the application of the Difference in Differences model (DID).

Thus, in the last part, an empirical analysis will be presented. Applying the Difference-in-differences (DID) model it will be possible to evaluate the effects of the policy (the application of sanctions).

The intuition lying behind the model affirms that it is possible to evaluate the effect of a policy by confronting the outcomes of two different groups, one characterized by the exposition to the treatment, the other not. The parallel trend assumption is respected because we are considering perfectly-substitute commodities, thus, in the absence of sanctions they should have had followed same trends. The two groups mentioned above are respectively the sanctioned commodities, that will be called treatment group, whereas the non-sanctioned commodities represent the group not subjected to the policy, identified with the control group. By assuming the substitutive nature of these goods, we can use the DID model by evaluating the difference between the average difference in the treatment group after and before 2014, and the average difference in the control group after and before 2014. The regression is reported:

$$Y_{i,t} = \alpha + \beta_1 T_i + \beta_2 A_t + \beta_3 T_i * A_t + \varepsilon_{i,t}$$

Where Y represents the value of exports to Russia. Y is classified as the dependent variable, its value it is determined by the dichotomic independent variables, T_i and A_t. Variable T, tariff, represents the status of each good i, that will be equal to one if goods are sanctioned and zero in the opposite case. Dummy A_t is related to the temporal sphere, it will be equal to zero for the pre-treatment years while the value one will be attributed in the post-treatment observations. The third factor, tariff_after, correlates the sanctions status with their temporal introduction, thus estimating if a dependency between sanctions and profits from exports exists.

The statistical model identifies as null hypothesis, H_0, the influence of sanctions in the level of exports. While H_1, the alternative hypothesis, determines that no correlation between sanctions and exports occurred. From the estimation it is possible to conclude that the observer is not significant, hence, the null hypothesis can be rejected in favour of the alternative hypothesis that confirms the uncorrelation of sanctions with the decline in exports to Russia. From the coefficients reported in the thesis, it is possible to conclude that there is a 18% of probability that the value is not different from zero, and the alternative hypothesis can be accepted. The estimator underlines

that the average difference of non-sanctioned and sanctioned goods before 2014 is higher than the same difference concerning commodities after 2014.

In conclusion, very little progress has been made from 2014. Russia does not seem willing to return Crimea to Ukraine, in addition, the Donbass war is still ongoing, and negotiations are far from the conclusion of an agreement. Future scenarios could include: Leaving the sanction regime, giving a political signal of the permanent rejection of the annexation or withdrawing the application of the restrictive measures and return to business as usual. The EU could decide as well to redetermine both sanctions and objectives (Smeets, 2018).

In April 2019, Presidential elections were held in Ukraine. Mr. Zelensky won the ballotage against the former president. During the campaign, He recalled the need of a ceasefire and adopted it as one of its main electoral promises.

However, from May, no real change has occurred.