

THE REGIME AND EFFECTIVENESS OF 2022 ECONOMIC SANCTIONS AGAINST THE RUSSIAN FEDERATION

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Abstract: *In the early 2022, the world economy is recovering from the decline caused by Covid-19 pandemic – the central banks being prepared to gradually withdraw fiscal and monetary support. The Russian military’s invasion of Ukraine and subsequent sanctions have reversed this trend and risks and uncertainty have suddenly returned amid rising energy, food and other important commodity prices, inflationary pressures, deterioration in financial and labor market conditions. This paper outlines the general framework of economic sanctions, reviews the sanctions adopted by the international community against Russia in the first 100 days of brutal, unjustified and unprovoked illegal military aggression against Ukraine, and identifies their effectiveness and impact on Russia’s economic and financial system.*

Keywords: *economic sanctions; Russo-Ukrainian war; Russian economy; European economy; energy.*

1. Economic sanctions – general framework

With the establishment of the League of Nations in 1919 (later the United Nations), the international sanctions became a potential foreign policy tool for changing the behaviors or policies that do not comply with certain standards of conduct shared by the international community (Romanian Ministry of Foreign Affairs 2022).

Following the end of the Cold War, the sanctions regime¹ was increasingly used by the international community (UN, EU or OSCE organizations or individual states) out of the need to respond to major geopolitical challenges (regional crises and conflicts), security threats (terrorism and organized crime), violations of the human rights and freedoms or of various international treaties. The aim is to maintain or restore international peace and security through non-military means, such as economic, trade and financial pressures on state or non-state actors that comply less or not at all with the international law. The sanctions regime refers to certain tools and means of economic nature that try to induce the desired behavior by changing decisions, activities or policies by which, for example, an actor triggers / escalates a military conflict that could involve certain costs. The economic and social costs of a long war are huge and will affect for a long time both the parties involved in the conflict and the neighboring states, the regional and even the global community.

The international sanctions imposing restrictive measures and obligations in relation to the governments of some states, non-state entities, individual or legal persons are instituted via legal instruments adopted by the UN Security Council, regulations of the European Union, decisions of other international organizations or unilateral decisions of any state in order to maintain international peace and security, to prevent and combat terrorism, to ensure respect for human rights and fundamental freedoms, to develop and strengthen democracy and the rule of law and to achieve other goals in accordance with the objectives of the international community (Romanian Government 2008). In general, such restrictive measures include: the

¹ The international community uses a wide variety of “tools” to influence the decisions, policies and strategies of some governments, which, in terms of implementation requirements and effects, can be: public appeals, political-diplomatic approaches, judicial measures, non-economic sanctions, economic sanctions and as a last resort actions that involve the use of armed force.

freezing of funds and blocking of economic resources; trade sanctions; restrictions on imports/exports of dual-use goods/technology and military equipment; travel, transport and communication restrictions; diplomatic, technical and scientific, sports and cultural sanctions. To these we could add the threat of using these means to weaken the economic and financial system of the adversary, which would reduce his political, economic and military power.

The Security Council (UNSC), the main UN body for responding to crises and conflicts, adopts sanctions resolutions against state or non-state entities with a majority of 15 votes and no veto from the five permanent members (China, France, Russian Federation, the United Kingdom, the United States). Thus, by virtue of Chapter VII of the UN Charter, the UNSC may include in its resolutions coercive, economic or other measures that do not involve the use of armed force. According to the Article 41, such sanctions may include “complete or partial interruption of economic relations and of rail, sea, air, postal, telegraphic, radio, and other means of communication, and the severance of diplomatic relations” (UN 1945). These exceptional measures should be used only after the peaceful settlement of disputes has been exhausted, being a stage between negotiations and coercive action by military means.

Economic sanctions are generally defined as “prohibitive economic measures applied by the international community to the export and/or import of goods, services, resources to or from a particular country” (Catedra de Economie și Politici Economice (ASE) 2001, 394). In our view, economic sanctions constitute any restriction or threat of restriction imposed by a country in its current trade relations with a target country in order to persuade its government to change its policy. Their application may be made unilaterally or in concert with other countries through the UNSC or other international organizations.

The most well-known forms of sanctions and coercive economic measures (Jura and Buruian 2015, 32) (Cloșcă 1982, 257-259) (Scăunaș 2007, 334-335) (Băhnăreanu 2007, 24-25), which seek to peacefully force a state to put an end to serious violations of the international law or the principles of economic policy, to reconsider the unjust measures it has taken and to repair the prejudice caused, are:

- *retort* – measures taken by a state, including economic ones, aimed to force other state to put an end to its unfriendly acts contrary to international practices.

- *reprisals* – coercion acts of political, legal, and economic nature adopted by a state, by derogation from the norms of international law, against another state in order to compel it to return to legality and to repair the prejudice caused. There are four subtypes:

- *boycott* – partial or complete interruption of trade relations with a target state in protest or punishment;

- *blockade* – partial or total isolation of a target state by interrupting rail, sea, air, postal, telegraphic, radio, and other such means, obstructing trade and communications relations with other states;

- *embargo* – prohibition of the import and export of a target state, the entry/exit of its commercial vessels (planes) into/from the territorial ports and waters (airports and airspace) of another state or their detention (together with their cargo);

- *severance of diplomatic relations* – unilateral act of state, by which it is decided the recall of its diplomatic mission and asks the other state to recall its diplomatic mission, the mutual representation of such states being performed further on by a third party, state or international organization.

In general, all these forms of action aim at excluding the target state from international economic circuits, prohibiting its access to some markets and depriving it of important goods, products and services and even total economic isolation in order to force it to comply with certain rules, to stop certain practices or to submit to a certain will.

2. Economic sanctions against Russian Federation

This section of the paper deals with the identification and systematization of economic sanctions against Russian Federation in order to create a basis for analyzing their effectiveness and impact on Russia and other countries. To this end, the analysis includes both the chronological criterion and that of the actor imposing the sanction, resulting not only in a time based systematization, but also in a map of the allies against Russia's actions.

On February 24, 2022, Russia launched a brutal, unjustified and unprovoked illegal military aggression against Ukraine, which attracted an unprecedented series of sanctions from the most of the international community. Russia's political and economic isolation, along with the costs of supporting the war effort, is expected to weaken Russian finances and economy and to force the Moscow regime to accept negotiations and end its so-called "special military operation".

In the first week, sanctions targeted Russian-funded institutions and individuals, removing Russian banks from the SWIFT system, freezing the assets of Russia's Central Bank, businessmen, and officials, closing European countries' airspace and seas for Russian aircraft and ships, restricting the Russian economy access to foreign capital and hi-tech, limiting Russia's ability to trade in dollars, euros, pounds or yen, banning certain exports to Russia, suspending Germany's authorization for the Nord Stream 2 gas pipeline, withdrawing major international companies from Russia (BBC News 2022).

In addition to the strong signal given in the early days of the invasion, developed countries adopted new sanctions against the Russian Federation in March 2022 aimed primarily at discouraging and undermining the Kremlin's ability to continue military action in Ukraine. According to the BBC (BBC News 2022), Reuters (Funakoshi, Lawson și DeKa, Tracking sanctions against Russia 2022) and PIIE (Bown 2022), the most important measures against Russian individuals, companies and economy were:

- The Central Bank of Russia has been suspended from the Bank for International Settlements, which means it will no longer be able to use its services, and the US, EU, and UK have banned individuals and companies from working with Russian Bank. The UK has also excluded Russian banks from the British financial system, frozen their assets and limit the deposits that Russians can have in British banks, and ban access of the Russian state and companies to financing or loans in the UK.

- The US, G7 and EU countries withdraw Russia's the most-favored-nation status, which means higher trade tariffs for a number of Russian products. The US has completely banned imports of Russian hydrocarbons, as well as other key products (vodka, seafood, diamonds), and the UK and EU – the export of luxury goods (eg vehicles, fashion items, art objects) to the Russian market. The UK, EU, US and other countries have restricted the export of certain products to Russia, in particular dual-use items (civilian and military), such as chemicals, lasers or vehicle parts (which affect factories of armored vehicles and tractors) and the EU has banned the sale of aircraft and specific equipment to Russian airline companies.

- Assets belonging to Russian President Vladimir Putin and Foreign Minister Sergei Lavrov are freezed in the US, EU, UK, and Canada and several Kremlin-connected oligarchs have had their goods and travel rights restricted by the US, Canada, EU and UK. Moreover, the UK limited the "golden passports" that allowed Russian investors to obtain residence rights on British territory.

- Although Russia was the fifth largest global retail market in 2021, a number of large international companies have suspended/closed their activities here (McDonald's, Coca-Cola, Starbucks, Nestlé, Heineken, Estee Lauder, Inditex, Levi's, Sony etc.). The four major accounting firms (Deloitte, KPMG, EY and PwC) have stated that they will no longer operate in Russia and Visa, MasterCard, American Express and PayPal withdraw from the Russian market in protest to.

- Japan has imposed financial sanctions on certain Russian individuals and companies and banned exports to some Russian entities, as well as those of luxury goods to Russia.
- Norway and Switzerland have aligned themselves with most EU sanctions against Russia.

One month after the start of the war, G7 and EU leaders met at NATO Headquarters in Brussels and pledged to fully implement the already announced sanctions against Russia, to cooperate with other governments to impose similar sanctions, to eliminate possible omissions and to prevent potential and effective evasion, circumvention and backfilling actions that would undermine the effectiveness of already imposed sanctions, as well as to stop any attempt to support Russia by other means (G7 2022a) (European Council 2022a). In the same time, the United Kingdom announced new sanctions targeting Russian strategic industries, including defense sector, businessmen and banks (UK Government 2022) and the US Treasury sanctioned dozens of Russian defense companies, over 300 members of the Russian Duma, and other Russian individuals (U.S. Department of the Treasury 2022a), stating that the imposed sanctions cover any transaction with gold or involving the Central Bank of Russia.

G7 leaders also announced a joint initiative to respond to “evasive measures, including regarding gold transactions by the Central Bank of Russia”, as well as closer coordination - including with OPEC – to reduce dependence on Russian gas, oil and coal and to manage possible supply disruptions. All instruments and funding mechanisms will also be used to ensure food security and resilience in the agriculture sector (G7 2022a). For their part, EU countries have pledged to eliminate dependence on Russia gas, oil and coal imports as soon as possible, in order to urgently implement both the EU gas storage policy and, in the perspective of next winter, solidarity and compensation mechanisms and, last but not least, to voluntary purchase of gas, LNG and hydrogen at Community level (European Council 2022a).

Moreover, following the tragedy in the city of Bucha (Ukraine) on April 6, 2022, the G7 and the EU announce plans to document and disseminate information about the atrocities committed by the Russian armed forces and to impose more economic costs on Russia, including through additional sanctions. Thus, the Biden administration issued an Executive Order banning exports of services and new US investments in Russia (The White House 2022a), and the US Treasury imposed financial sanctions on Sberbank and Alfa-Bank and blocked assets of Putin and Lavrov families and Russia’s Security Council members (U.S. Department of the Treasury 2022b) (Liptak, Klein and Collins 2022). The EU has also adopted the fifth package of sanctions by which: banned Russian coal imports since August 2022, as well as wood, cement, fertilizers, seafood and alcoholic beverages; extended export bans including aircraft fuel, quantum computers, semiconductors and other technological products and services; prohibited the access to EU ports of Russian vessels and the use of EU roads by Russian and Belarusian transport vehicles; imposed a full transaction ban on four other Russian banks and financial sanctions against key Russian oligarchs, politicians and their family members; banned Russian companies from participating in EU public procurement projects (Council of the EU 2022). In the same time, the UK financially sanctioned Sberbank, Credit Bank of Moscow, eight Russian oligarchs, Sergei Lavrov and daughters of Putin, banned imports of Russian iron and steel products, exports of quantum and advanced material technologies to the Russian economy and all new investment to Russia and pledged to eliminate Russian coal and oil imports by the end of 2022 and gas as soon as possible (GOV.UK 2022a) (GOV.UK 2022b). Japan also banned the import of certain Russian products, prohibited new outward investment to Russia and imposed financial sanctions on over 400 Russian individuals and entities (Federal Register of Legislation 2022).

Over the next two months (April and May 2022), the international community continued to expel a number of Russian diplomats and implement new sanctions (BBC News 2022) (Reuters Graphics 2022) (Bown 2022) aimed to destabilize the Russian economy and increase economic and financial pressure on Moscow:

- The US has expanded license requirements on Russia/Belarus export controls and added another 120 Russian and Belarusian companies that support the two countries' armies on its Entity List². It also issued temporary denial orders of the export privileges of the Aeroflot, Azur Air and UTair Russian airlines for alleged violations of previous export controls. Moreover, the Biden administration has signed two bills prohibiting energy imports from Russia and suspending normal trade relations with Russia and Belarus.

- The US Treasury has sanctioned individuals and entities who tried to evade the sanctions already imposed, including companies in the virtual currency industry and networks led by Russian oligarchs (and launched an action to block payments made by Russia to American bondholders). The State Department also announced it is imposing financial sanctions and visa restrictions on hundreds of individuals, including directors of state-owned banks, defense companies and television stations.

- The US has prohibited Russian-affiliated vessels from entering US ports and Norway has added a ban on Russian goods transporting on its roads to that regarding its ports.

- The UK has banned imports of new Russian goods (silver, wood and caviar) and exports of certain products and technologies (chemicals, plastics, rubber, machinery, interception and monitoring equipment) and services (management consulting, accounting and public relations) to the Russian state and imposes additional tariffs on imports of diamonds, platinum, palladium and rubber from Russia and Belarus. It also imposed financial sanctions and travel bans on a number of Russian military commanders and hundreds of individuals supporting the war, such as separatists of the so-called Donetsk and Lugansk People's Republics and entities associated with Russia's "troll factory", several Russian oligarchs close to President Putin, including their relatives. Moreover, the UK's tax authority has revoked the recognized stock exchange status of the Moscow Stock Exchange which could deprive future investors of access to certain UK tax benefits.

- Canada has prohibited exports of insurance services to Russian aircraft, aviation and aerospace industry and imposed financial sanctions on another 33 entities in Russia's defense sector and a number of Russian oligarchs. The Canadian government has also amended its import and export restrictions on trade with Russia.

- Japan has withdrawn the most-favored-nation treatment for imports from Russia, which will increase import tariffs for certain products. Instead, China reduced these duties on coal imports from 3-6% to zero in order to disproportionately benefit Russian exports displaced from other markets.

International sanctions will continue to affect Russia's economic development and will have lasting effects, including on the living standards of the Russian population. In a Statement commemorating the end of the Second World War in Europe, G7 leaders said future measures would include: gradually reducing our dependence on Russian energy; export bans on advanced goods and key services; additional sanctions against Russian banks, oligarchs and individuals; and efforts to continue the fight against Russian propaganda (G7 2022b). In this context, after several rounds of negotiations, EU ambassadors managed to reach in May 2022 an agreement on a partial oil embargo on Russia (European Council 2022b), in particular 75% of current European oil and petroleum products imported from

² "Entity List" contain the names of certain foreign persons – including businesses, research institutions, government and private organizations, individuals, and other types of legal persons – that are subject to specific license requirements for the export, reexport and/or transfer (in-country) of specified items (U.S. Department of Commerce's Bureau of Industry and Security 2022).

Russia (excluding deliveries through Druzhba pipeline to Hungary, Slovakia, the Czech Republic and other landlocked countries) and 90% by the end of this year (O'Kane 2022). The agreement provides for a gradual decrease in Russian oil transport, including pipelines imports of Germany and Poland. The implementation of this measure will seriously affect the Russian economy, given the fact that EU states have imported from Russia about 2.2 million barrels/day of oil and another 1.2 million barrels/day of petroleum products, which means over \$ 1 million/day income for the Russian economy (BBC News 2022). The sixth package of sanctions entered into force with immediate effect on June 3, 2022, with the written agreement of each EU Member State.

In the first 100 days of Russia's military aggression in Ukraine, the economic sanctions imposed by international organizations and individual countries was gradual and targeted individual and entities of the Russian economy, finance and society. This sanctioning process against an actor that who violated the rules of international law mobilized most of the international community, even countries that had close trade relations with Russia, despite the risks and sacrifices involved for the imposing countries. The effectiveness of these economic sanctions and the effects on European countries will be analyzed in detail in the next section.

3. The effectiveness of economic sanctions against the Russian Federation

In general, economic sanctions involve high costs which are often not reflected in the results obtained. Their use requires a very judicious and objective forecast of the subsequent effects on economies and population of the imposing countries. In the political environment and academia inevitably arisen a debate over the effectiveness of economic sanctions adopted by the international community against Russian Federation, including the effects on the economy of those who impose them. Goldman Sachs warns that the economic impact of war in Ukraine could push the US and Europe into recession (Warner 2022), given that energy prices and inflation are already on a strong upward trend adding new risks and volatility to global markets. The European Central Bank has already revised the Euro area economic growth for the current year, from 4.2% in December 2021 to 3.7% in March 2022 (European Central Bank 2022) and the prospects are not very encouraging.

On the one hand, some European countries do not agree with the sanctions. The recently re-elected president, Aleksandar Vučić, stated that Serbia, a candidate for EU membership, will not impose sanctions on Russia because “we do not believe sanctions change anything” (Dunai 2022). Hungary with strong economic interests in the energy resources received from Russia has also a similar position. On the other hand, experts argue that the classic goals of criminal justice – deterrence, enforcement, punishment and rehabilitation – can also be applied to economic sanctions (Hufbauer and Hogan 2022). Clearly, deterrence has failed to stop Russian's “special military operation” in Ukraine, but sanctions imposed after invasion could still discourage other countries, such as China and India, from directly or indirectly undermining measures taken against the Russian economy. In terms of their enforcement, the sanctions have proven to be among the strongest in modern history because they have been accepted by a large part of the international community and the effects on the economy and Russian citizens being quite severe. Russia's rehabilitation of the West cannot be discussed at this time, as there is not the slightest evidence that the Moscow regime will change its course.

Since the beginning of the military invasion in Ukraine, economic sanctions against Russia are having an increasing effect. It is evident that the Russian economy has suffered some damages and soon shifted from a major international economy³, as a provider of energy

³ In October 2021, Russia's economy ranks 11th in the world, with a GDP value of about \$ 1.650 billion (IMF 2021).

resources and food, to one on the verge of collapse, as a result of sanctions and war effort. Although the ruble appreciated at pre-invasion value as a result of countermeasures taken by the Central Bank of Russia and the Moscow administration, Russian experts estimate a slowdown in Russia's economy by at least 8% this year amid rapid inflation – which could reach 20% (Reuters 2022). In fact, even President Putin recognizes that 2022 will be a difficult year for the Russian economy not because of the war in Ukraine, but because of rising inflation (Mazilu 2022). UN experts also forecast a sharp contraction of the Russian economy of -10.6% by the end of 2022 (UN 2022, 3), based on curtailing Russia's trade and financial relations with the rest of the world, the exodus of capital and foreign companies and the possible Europe embargo on Russian energy. IMF expects a fall of Russia's GDP at least -8.5% this year due to the significant drop in private investment and consumption (IMF 2022, 4). Economists at the International Institute of Finance are even more pessimistic and forecast a -15% decline in the Russian economy (Brooks, et al. 2022).

Russia and Ukraine are particularly important to global economy, especially world trade in terms of their role as suppliers of wheat (30%), corn, mineral fertilizers and natural gas (20%), oil (11%), rare metals (palladium, nickel, titanium, uranium) and inert gases (argon, neon) (OECD March 2022, 5). All these sanctions will have a strong impact on the Russian economy – already in recession – which will shrink by at least 11.2% in 2022 amid a sharp decline of domestic demand (The World Bank Spring 2022, 35). The World Bank also estimates for Russia that by the end of 2022, investment will decrease by about 17%, the inflation will reach 22%, and exports and imports will fall by 30.9% respectively 35.2% (The World Bank Spring 2022, 92). Russia's ability to withstand the war effort will be affected, given that much of Russian imports are destined for the advanced products and technology needed to industrialize the Russian economy.

As Moscow's ability to use foreign exchange and credits was blocked, the Russian economy became increasingly dependent on revenues from the sale of fossil fuels (energy exports accounted for 60% of total exports in 2019 (Jayanti 2022)). Russia is the largest exporter of gas to European market and, therefore, the most drastic sanction that would hit the Russian economy hard would be the total cessation of European imports of Russian oil and gas⁴.

What would be Russia's alternative to counter such a measure? Moscow claims that it can quickly redirect, at preferential prices, energy resources destined for Europe to other "friendly" countries that need them, as well as increase domestic consumption (Reuters Staff 2022). It refers to the Asian market, mainly China and India, but this cannot be done overnight because requires political agreements, investments, pipelines and other facilities. Another problem for Russia is the long-term trade relations of these two Asian economic powers with the oil-rich countries of the Middle East – Saudi Arabia, Iraq, the United Arab Emirates (Sullivan 2022).

In the same time, if Russia decides not to deliver energy to Europe, what could be the short-term alternatives for the Brussels authorities? First, especially after the annexation of Crimea in 2014, the EU managed to reduce its dependence on Russian energy resources to a small extent being accused of financing its own insecurity by financing the accounts of the Moscow administration. Moreover, most European countries have given up coal in the context of climate change and others (such as Germany) have completely abandoned nuclear energy. In principle, based on existing energy infrastructure, the EU should have no short-term problems and could meet its energy needs in Norway and North Africa, along with consumption adjustments (McWilliams, et al. 2022). Sharing Member States' gas from their deposits across the EU could also delay or prevent supply disruptions for a limited period of

⁴ The US, Canada, Australia and the UK have already taken such measures, banning oil imports from Russia and the Baltic countries for Russian gas.

time. A total blockade of Russian energy imports into Europe does not seem to be a viable option yet, as some European economies are so dependent on Russian gas that they would almost certainly go into contraction and even recession. But, reducing the use of Russian fossil fuels by European countries, along with improving the supply of oil and gas from other producers, remains a priority that would lead to an increase in the total supply and a decrease in international oil prices. This will have a negative effect on Russia's foreign exchange revenues.

To counter the disastrous effects of sanctions on the Russian economy, the Moscow administration is working in two main areas:

- *full use of the so-called "energy weapon"*, in order to reverse both the devaluation of its national currency and to force Western countries to drop at least some of sanctions imposed;

- *developing partnerships with China, India and other "friendly" Asian countries*, in order to future secure its energy exports and revenues.

As a response to economic sanctions, Russia has imposed a condition to all "unfriendly" countries to pay in rubles for Russian gas and oil through accounts opened on Gazprombank starting with April 1, 2022, otherwise supplies will be stopped (Astrasheuskaya și Abboud 2022). Some European states have complied with Putin's ultimatum, being accused of violating EU sanctions (Hernandez 2022), but many other opposed. Gazprom has halted gas exports to Poland, Bulgaria and Finland due to their refusal to pay in Russian currency (Bounds and Fleming 2022), as well as to a company in the Netherlands and another in Denmark. Russia has also blocked the transactions with 31 foreign energy companies, including former Gazprom subsidiaries in Germany, France and other European countries, traders and operators of underground gas storage facilities, as well as with companies in the US and Singapore (TASS 2022).

In anticipation of Moscow's actions, the US and the European Commission have already announced the strengthening of cooperation in the field of energy security by setting up a Joint Task Force that will aim to ensure LNG deliveries from the US to the European market of at least 15 billion cubic meters in 2022 to about 50 billion cubic meters in 2030 (European Commission 2022). Moreover, in order to reduce prices on the international market, the US has announced an increase in the oil supply by 1 million barrels per day in the next six months from the American Strategic Petroleum Reserve, which will be coupled with a short-term increase of domestic production and in other allied and partners countries and "flooding" the market with millions of additional oil (The Secretary General's Annual Report 2016 n.d.).

Moscow's administration is working also on strengthen economic cooperation with "friendly" Asian countries, especially China and India, by offering oil, grain and other products at reduced prices. Putin even wants a dedollarization of the Russia-China partnership, which could be joined by India, by developing an alternative global financial system to avoid trade sanctions imposed by Western countries. In this framework, some analysts believe that we could witness an Indo-Chinese alliance (Srivastava and Tiberghien 2022), backed up by Moscow, which is still an unlikely scenario given that it would jeopardize about a third of the Chinese exports that are entering the European and American markets (Lawder 2022), as well as China's economic expansion centered on the "New Silk Road".

Sanctions imposed by international community against Russian Federation certainly have an economic effect, but they do not yet decisively change Moscow's domestic or foreign policy, nor do they lead to a change of power. A reason is that the losses are largely offset by the explosion in oil and gas prices in international markets, so that the effects of the economic sanctions are felt especially by the Russian population not by the regime and its elites.

Conclusions

The case of Russia marks a new milestone in the global sanctions practice due to the extent and degree of international consensus on the taken measures. Although the current results of economic sanctions for Russian economy are quite clear, the lessons learned from previous cases could help to increase effectiveness and minimize costs. We believe that safeguards are needed to mitigate the internal economic costs for European countries, especially if these costs are addressed at an early stage.

There are several channels through which Russia's brutal, unjustified and unprovoked illegal military aggression in Ukraine affects the economy and trade. First, the escalation of oil and gas prices, as a result of imposed energy sanctions, is affecting the European market and leads to rising inflation. Second, the disruption of grain, timber, coal and some rare metals' supply chains in Ukraine and Russia keeps prices high for these products which leads to rising food prices and hamper the automotive and aerospace industries and smartphone manufacturers. Third, the political risks and uncertainty generated by this military conflict triggered the reduction/suspension of operations or even the withdrawal of many important companies from Russia, as well as the cessation of investments in the two warring states. Last but not least, the humanitarian crisis and the waves of Ukrainian refugees are requiring assistance from neighboring states, the EU and other actors, which involves some economic and social costs. All these factors, alongside economic impact at national and regional level, will increase the cost of living and place even more pressure on household consumption and income.

Finally, we can say that the full effects of sanctions imposed by the international community on the Russian economy are still ongoing and difficult to estimate, as there are direct and indirect future implications for economic activity in other countries, especially European ones. What is clear is that Russian energy exports will fall, the Russian economy and finances will weaken more and more, and the standard of living of the Russian population will fall for a decade or even more.

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