



Sanctions over the Ukraine conflict

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Author: Ben Smith

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- A significant and expanding sanctions regime against certain Russian individuals and companies and against certain Ukrainians has been in place since March 2014
 - The downing of the Malaysian Airlines flight increased tensions
 - The EU announced broad economic ('tier three') sanctions against Russia on 29 July 2014 including restrictions on some state-controlled Russian banks' ability to borrow money in EU financial markets and an arms embargo
 - The EU also imposed a ban on the export of technology for the extraction of oil from deep sea, Arctic and shale deposits
 - The US increased the range of its sanctions on the same day
 - Targeted sanctions were added to in September and November 2014 and January 2015
 - As violence escalated in eastern Ukraine in early 2015, both the EU and the US indicated that the option of arming the Ukrainian government remained open.
 - Reaction has been mixed, with some commentators arguing that sanctions will weaken critics of nationalistic policies in Russia

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1 Sanctions regime set up in March 2014

1.1 EU sanctions

Council Decision 2014/145/CFSP¹ and Council Regulation (EU) 269/2014,² of 17 March 2014, imposed visa bans and asset freezes on certain individuals associated with 'actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine'.

There are two separate instruments because the action affects matters covered by both the Common Foreign and Security Policy (CFSP) and the Treaty on the Functioning of the EU (TFEU).

The European Scrutiny Committee considered the implementing decisions for the sanctions on 30 April.³ The Committee cleared the documents, decided that they were politically important and requested further information from the UK government.⁴ Further information about the measures is available in the Committee's report.

More names were added on 29 April and the list has been amended since then.

On Monday 23 June, the then British Foreign Secretary William Hague warned that the EU was prepared to impose more sanctions on Russia if necessary.⁵ The EU has made refraining from imposing new sanctions conditional on the Russian reaction to the new Ukrainian government's peace plan.

A package of economic measures, which could damage both the Russian and the EU economies, has reportedly been drawn up by the EU. It is not clear how far they would go although it has been reported that they are divided into different stages of severity.

1.2 Other countries

The sanctions were broadly in line with the US restrictions, and other countries such as Japan and Australia have adopted similar measures.⁶ Russia retaliated by implementing some similar sanctions. On 7 May, the EU Council expanded the criteria to make it easier to add Russian companies to the list, thereby bringing the EU sanctions list more in line with that of the US government.

2 Strengthened sanctions July 2014

2.1 EU

EU leaders met at the European Council meeting of 16 July. The EU Council said that Russia had not sufficiently implemented the steps set out in their conclusions of 27 June, in which they had called on Russia to use its influence on the rebel groups and to stop the flow

¹ [Council Decision 2014/145/CFSP of 17 March 2014](#) concerning restrictive measures in respect of actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine

² [Council Regulation \(EU\) No 269/2014 of 17 March 2014](#) concerning restrictive measures in respect of actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine

³ European Scrutiny Committee, [Documents considered by the Committee 20 April 2014, Ukraine and Russia: EU restrictive measures](#)

⁴ European Scrutiny Committee, [Documents considered by the Committee 20 April 2014, Ukraine and Russia: EU restrictive measures](#)

⁵ 'Hague says EU ready for more Russia sanctions if necessary', *Reuters*, 23 June 2014

⁶ [Russia Sanctions developments](#), provided by the law firm Baker and McKenzie, provides some useful information

of militants and weaponry cross the border and to achieve rapid results in de-escalating the conflict.

The EU leaders stopped the European Investment Bank and the European Bank for Reconstruction and Development from granting further loans in the Russian Federation and instructed the European Commission to prepare a list of entities supporting the unrest by the end of July. Asset freezes and travel bans had already been placed on 11 new individuals on 11 July.

They also agreed to discontinue the suspension of licences for export to Ukraine of equipment that might be used for internal repression.⁷

The Council also asked the Commission to review EU bilateral and regional cooperation programmes with a view to suspending most of them. This would amount to some €450 million in aid being cancelled. Civil society programmes would be maintained.⁸

The Russian ministry of foreign affairs responded with disappointment to the EU sanctions:

We are disappointed that the European Union, contrary to its own interests, has yielded to the blackmail of the US Administration and followed the path of sanctions against Russia. Brussels is actually copying the example of Washington, basically applying “mirror logic” putting full blame on those who take real efforts to deescalate the situation in Ukraine, while glaring facts including unceasing flow of refugees from Ukraine to Russia, shelling of Russian territory and other anti-Russian provocations are being blatantly suppressed.⁹

2.2 US

On 16 July, the US administration imposed restrictions on large Russian companies, including GazpromBank and Vnesheconom Bank and gas producer Novatek and the government-controlled oil company Rosneft. The restrictions prevent people in the US from providing funding for the companies, effectively restricting the companies’ access to US capital markets. Some Russian defence companies had their assets in the US frozen. The administration also added the names of four Russian officials to the existing sanctions list. More detail is provided in a US Treasury press notice:

- Treasury imposed sanctions that prohibit U.S. persons from providing new financing to two major Russian financial institutions (Gazprombank OAO and VEB) and two Russian energy firms (OAO Novatek and Rosneft), limiting their access to U.S. capital markets;
- Treasury designated eight Russian arms firms, which are responsible for the production of a range of materiel that includes small arms, mortar shells, and tanks;
- Treasury designated the “Luhansk People’s Republic” and the “Donetsk People’s Republic,” which have asserted governmental authority over parts of Ukraine without the authorization of the Government of Ukraine; and Aleksandr Borodai, the self-declared “prime minister” of the Donetsk People’s Republic, for threatening the peace, security, stability, sovereignty, and territorial integrity of Ukraine;

⁷ [Special meeting of the European Council \(16 July 2014\) – Conclusions](#), European Council, 16 July 2014

⁸ [European Council meeting 26/27 June 2014 – Conclusions](#), European Council, 27 June 2014

⁹ [‘Comment on European Council conclusions regarding the situation in Ukraine’](#), Russian mission to the EU press release, 17 July 2014

- Treasury designated Feodosiya Enterprises, a key shipping facility in the Crimean peninsula, because it is complicit in the misappropriation of state assets of Ukraine; and
- Treasury designated four Russian government officials, including Sergey Beseda, a senior Russian Federal Security Service official.¹⁰

The Russian deputy foreign minister said that Russia would take ‘acutely painful’ measures in response.¹¹

3 EU debates further action following the MH17 disaster

As 2014 progressed, German Chancellor Angela Merkel took an increasingly strong line against Russian policy in Ukraine. After the MH17 Malaysian Airlines airliner crash on 17 July, the pressure for more action became intense.

‘Stage three’ sanctions: restrictions against whole sectors of the Russian economy, were not imposed, even though certain EU leaders, from the Baltic States and Sweden for example, thought they were necessary. Dalia Grybauskaitė, Lithuania president, said that without a tougher line, ‘Russia will go on behaving aggressively on the borders of Europe’.¹²

The UK Foreign Secretary, Philip Hammond, argued that asset freezes and travel bans could be imposed on close associates of Russian leader Vladimir Putin. Press reports suggested that the UK was pressing for ‘tier three’ sanctions: targeting whole sectors of the Russian economy and imposing arms trade bans. David Cameron implicitly criticised those who might simply hope that the crisis would go away:

For too long there has been a reluctance on the part of too many European countries to face up to the implications of what is happening in eastern Ukraine.

Sitting around the European Council table on Wednesday evening I saw that reluctance at work again.

Some countries, with Britain at the forefront, have consistently pushed for action that reflects the magnitude of the long-term threat. They tend to be the countries with the closest physical proximity to Russia and the most direct experience of what is at stake. Their own independence and nationhood have come at a high price. They never forget it. But others seem more anxious to make this a problem to be managed and contained, not a challenge to be met and mastered.¹³

22 July meeting

On 22 July, EU foreign ministers met to discuss Ukraine in Brussels. After the meeting, Frans Timmermans, Dutch foreign minister, said that ‘forceful’ and ‘unanimous’ decisions had been taken to widen the sanctions.¹⁴ The existing sanctions process, agreed 16 July, would be accelerated, with a new list of names and organisations would be drafted by Thursday 24 July for addition to the sanctions list. The Council asked the European Commission and the EU diplomatic service to draw up further measures for further sanctions targeted against individuals – travel bans and asset freezes – as well as broader measures: including on

¹⁰ [Announcement of Treasury Sanctions on Entities Within the Financial Services and Energy Sectors of Russia, Against Arms or Related Materiel Entities, and those Undermining Ukraine's Sovereignty](#), US Treasury press release, 16 July 2014

¹¹ ‘EU targets Russian oligarchs, as US hits banks and oil firms’, *EUObserver*, 17 July 2014

¹² ‘Germany backs more EU sanctions on Russia’, *EUObserver*, 16 July 2014

¹³ ‘MH17 air disaster: article by David Cameron’ Downing Street press release, 20 July 2014

¹⁴ ‘MH17 plane crash: EU to widen Russia sanctions’, *BBC News Online*, 22 July 2014

access to capital markets, defence, dual use goods and sensitive technologies, including in the energy sector.¹⁵

24 July meeting

EU member states' ambassadors met in Coreper (the Committee of Permanent Representatives to the EU) on 24 July to consider further action. They added 15 more individuals, nine companies and nine institutions from Russia and east Ukraine to an existing list of 72 individuals and two firms. They also agreed to change the criteria for adding names to the list to allow people close to the Russian president to be added. Discussions continued on 25 July, reportedly to consider broader trade and financial sanctions.¹⁶

25 July meeting

Coreper, met on Friday 25 July. They adopted the measures agreed at the Foreign Affairs Council of 22 July. The legal acts passed make it possible:

- to target **15 additional persons and 18 new entities** with a travel ban and assets freeze. In total, therefore, **87 persons and 20 entities** will now be under EU sanctions over the situation in Ukraine
- to **extend the designation criteria** for imposing asset freezes and visa bans on **persons and entities that actively support or are benefiting from the Russian decision-makers** responsible for the annexation of Crimea or the destabilisation of Eastern Ukraine.¹⁷

Some of the individuals added to the list were members of Russia's Security Council. Others were rebel leaders in Ukraine.

The meeting also discussed the work on broader economic sanctions, including access to capital markets, defence, dual use goods, and sensitive technologies, including in the energy sector.

On 25 July the Council duly endorsed the additions of individuals and entities to the sanctions list. These became law with publication in the Official Journal on 25 July.¹⁸ The decision was adopted by written procedure, a special procedure for urgent measures.¹⁹

4 Tier three sanctions imposed

While the earlier targeted sanctions were primarily designed to send a signal to the Russian leadership about the EU's unity and resolve, the broader economic sanctions were designed to damage the Russian economy.

The broader economic sanctions discussed at Coreper have been described as the hardest since the Cold War. The arms embargo only applied to future contracts, as did restrictions on capital market trade and oil technology exports. This allowed the French government to go ahead with its sale of helicopter carriers and also softened the potential damage to the City of London.

¹⁵ 'Foreign Affairs Council meeting', EU press release, 22 July 2014

¹⁶ 'EU blacklists more Russians, prepares economic sanctions', *EUObserver*, 24 July 2014

¹⁷ 'Further EU sanctions over situation in Eastern Ukraine', Council of the European Union release, 25 July 2014

¹⁸ Council Implementing Regulation (EU) 810/2014 of 25 July 2014 implementing Regulation (EU) 269/2014 concerning restrictive measures in respect of actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine

¹⁹ 'EU sanctions over situation in Eastern Ukraine strengthened', Council of the European Union press release, 25 July 2014

President of the European Council Herman Van Rompuy said that the proposed measures would be effective but not damage the European economy too much. He said the package:

...strikes the right balance when it comes to cost/benefit ratio and scalability/reversibility over time. It should have a strong impact on Russia's economy while keeping a moderate effect on EU economies.²⁰

In a conference call on 28 July, leaders of Britain, France, Germany, Italy and the US agreed to go ahead with EU trade sanctions. These would, like US sanctions already in place, impose restrictions on Russian banks' access to Western finance, in this case European and, particularly, UK financial markets. The legislation imposed:

- Restrictions meaning that 'EU nationals and companies may no more buy or sell new bonds, equity or similar financial instruments with a maturity exceeding 90 days, issued by major state-owned Russian banks, development banks, their subsidiaries and those acting on their behalf. Services related to the issuing of such financial instruments, e.g. brokering, are also prohibited.'²¹

The listed financial institutions were:

1. Sberbank
 2. VTB Bank
 3. Gazprombank
 4. Vnesheconombank (VEB)
 5. Rosselkhozbank
- An embargo on the export and import of arms and related material, covering all items from the EU common military list.²²
 - An export ban on dual-use goods and technology for military end users, as defined by the EU list of dual use goods.²³
 - Restrictions on the export of technology connected with the deep water, Arctic or shale oil extraction, but not the gas industry.

Coreper met again on 29 July to finalise the sanctions and they came into force with publication in the Official Journal on 31 July,²⁴ using the written procedure.

The EU financial sanctions differed from the US measures in that Sberbank, Russia's biggest, was not listed by the US Treasury. On the other hand, the US Treasury designated the Bank of Moscow, while the EU did not.

4.1 Extra sanctions related to Crimea

The Coreper meeting of 28 July also agreed on specific trade and investment restrictions for Crimea and Sevastopol, as requested at the European Council of 16 July.

²⁰ 'EU to hit Russia with economic sanctions next week', *Euobserver*, 25 July 2014

²¹ 'EU restrictive measures in view of the situation in Eastern Ukraine and the illegal annexation of Crimea', European Council background note, 29 July 2014

²² [Common military list of the European Union](#) (adopted by the Council on 17 March 2014)

²³ [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

²⁴ [Council Regulation \(EU\) 833/2014 of 31 July 2014](#) concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine

These comprise a ban on new investment in, and the export of equipment for, the following sectors in Crimea and Sevastopol:

- infrastructure projects in the transport, telecommunications and energy infrastructure
- oil, gas and minerals exploitation infrastructure

Finance and insurance services related to such transactions were also banned.²⁵

4.2 More additions to the travel bans and asset freezes list

Coreper also added eight individuals and three entities to the list of those subject to an asset freezes and visa bans, bringing the number of persons and entities under EU restrictions to 95 persons and 23 entities.²⁶

4.3 More US sanctions

The EU's announcement of 29 July was coordinated with the US administration. The US Treasury imposed measures on more financial institutions, prohibiting US citizens and persons within the United States from:

...transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days maturity or new equity for Bank of Moscow, Russian Agricultural Bank [Rosselkhozbank in Russian], and VTB Bank OAO, their property, or their interests in property.²⁷

VEB and Gazprombank had already been listed on 16 July.

The US Treasury also designated and blocked the assets of United Shipbuilding Corporation 'for operating in the arms or related materiel sector in Russia,' pursuant to Executive Order 13661 on persons contributing to the situation in Ukraine.²⁸

On 5 September the EU decided to strengthen significantly the sanctions regime against Russia:

- The maturity threshold for the ban on the trade in new bonds, equity or similar financial instruments was reduced from 90 to 30 days
- The restrictions on capital market access were extended to three major Russian defence companies and three major energy companies
- Restrictions were placed on exports of further technological items for the extraction of oil
- Restrictions on the export from the EU of dual-use technology were extended to nine mixed defence companies

²⁵ ['EU restrictive measures in view of the situation in Eastern Ukraine and the illegal annexation of Crimea'](#), European Council background note, 29 July 2014

²⁶ *Ibid*

²⁷ ['Announcement of Additional Treasury Sanctions on Russian Financial Institutions and on a Defense Technology Entity'](#), US Treasury press announcement, 29 July 2014. For the complete list, see US Treasury Office of Foreign Assets Control, [Sectoral Sanctions Identifications List](#), July 29, 2014

²⁸ [Announcement of Additional Treasury Sanctions on Russian Financial Institutions and on a Defense Technology Entity'](#), US Treasury press announcement, 29 July 2014

- 24 persons were added to the list of those subject to a travel ban and an asset freeze, including the leaders of the breakaway Donbass region, the claimed government of Crimea and persons close to the Russian leadership.²⁹

The US³⁰ and Canada³¹ also imposed new sets of sanctions, coordinated with the EU measures, in September. They similarly reduced the debt maturity threshold from 90 to 30 days and added new names and entities to their restricted list.

Gradual strengthening of the EU and US regimes

At the end of November 2014, another 13 Ukrainian separatists were added to the list of visa ban and asset freeze targets. Five entities, institutions of the claimed independent state of Donbass, were also listed.³² The measures were in response to the controversial elections held in the two regions on 2 November, which the EU decided breached the Minsk Protocol, the Russia-Ukraine agreement that forms the basis of the supposed ceasefire.

The EU was also discussing other measures, such as reinforcing the ban on investments in Crimea. However, Angela Merkel suggested in November that Germany was not in favour of further trade sanctions, although she remained open to the idea of adding to the list of individual sanctions targets.³³

5 Upsurge of violence and consideration of further measures, January 2015

At the beginning of 2015, NATO and the Ukrainian government accused Russia of sharply escalating the violence, as an artillery attack on a residential the port city of Mariupol on Ukraine's Black Sea coast was reported to have killed some 30 civilians.

There have been press reports that the US is considering yet another round of sanctions. On 25 January, President Obama made a statement in which he said that the US was deeply concerned about the violence and particularly the attack by separatist rebels in Mariupol.³⁴ Mariupol is important because it is on the coast of southern Ukraine in what could be overland access between annexed Crimea and Russia proper; at present Ukraine controls all land access to Crimea.

Donestsk airport, which had been held by the government, was overrun by rebels, in contravention of the ceasefire. The Mariupol attack came the day after a Ukrainian rebel leader ruled out any more ceasefire talks and promised to capture more cities in eastern Ukraine from the Ukrainian government.

According to the reports, EU leaders are divided as to whether to toughen sanctions against Russia. Poland and the UK are often singled out as hawks while Italy tends more to doveishness. However, Federica Mogherini, EU High Representative for Foreign Affairs called an emergency meeting for foreign ministers for Thursday 29 January to discuss possible further measures. A leaked draft suggested that the European External Action

²⁹ [‘Reinforced restrictive measures against Russia’](#), EU Council press background note, 11 September 2014

³⁰ Dechert LLP, [US and EU Impose Additional Sanctions on Russia](#), September 2014

³¹ Baker McKenzie, [Canada expands list of Russian persons facing sanctions and tightens debt restrictions on Schedule 2 designated persons](#), 22 September 2014

³² For a complete list of EU sanctions against Russia see the EU web page [EU sanctions against Russia over Ukraine crisis](#)

³³ [‘Merkel rules out more economic sanctions against Russia’](#), *Deutsche Welle*, 11 November 2014

³⁴ [‘US signals tougher sanctions on Russia’](#), *Financial Times*, 26 January 2014

Service (EEAS) envisaged extending the list of entities and individuals subject to restrictions and asking the Commission to work on another round of economic sanctions.³⁵

Donald Tusk, the new President of the Council, who is Polish, tweeted: “Once again, appeasement encourages the aggressor to greater acts of violence. Time to step up our policy based on cold facts, not illusions.” German foreign minister Frank-Walter Steinmeyer said “Efforts for de-escalation need to be continued. I hope that - even after the past three days - not everything is lost.”³⁶

One significant development is the election of the Syriza government in Greece. Alexis Tsipras has a record of support for Russia and criticism of EU sanctions over Crimea. Cyprus made significant friendly overtures to Russia in February 2015.

In March 2015, the Spanish foreign minister questioned the need for more sanctions, saying that sanctions were “beneficial for no-one” and pointing out that the Spanish economy was suffering from Russian counter-sanctions.³⁷ He added: “keeping or lifting sanctions depends on whether the agreements on Ukraine are being implemented or not.”

6 A new ceasefire and new sanctions

On 6 February, François Hollande and Angela Merkel travelled to Moscow for talks with President Putin. There were hopes that an amended version of the Minsk ceasefire agreement might be signed, in return for increased autonomy for the eastern regions of Ukraine. Hollande and Merkel also proposed a 50-70 km buffer zone, with Ukrainian rebels required to withdraw to the line of contact agreed in the Minsk protocol.

Some close to Western governments hoped that the threat of re-arming the Ukrainian army would persuade Russia to seek a compromise. Others were sceptical about compliance, including the US Vice President, Joe Biden, who said that Putin “absolutely ignores every agreement that his country has signed”, including the Minsk agreement.³⁸ Although US and EU opinions appeared to be diverging, the US administration pledged to remain united with the European on the issue.

French, German, Russian and Ukrainian leaders met again in Minsk, capital of Belarus, on Wednesday 11 February. They agreed a new ceasefire and the withdrawal of heavy weaponry. The OSCE would monitor the agreement’s implementation. Angela Merkel warned of more sanctions if the deal was breached.

6.1 EU adds more individuals to the sanctions list

On 16 February 2015, the EU added 19 individuals and nine entities to the sanctions list. Visa bans and asset freezes were imposed on Russian First Deputy Defence Minister Arkady Bakhin and Deputy Defence Minister Anatoly Antonov and deputy chief of the Russian General Staff of the armed forces, Andrei Kartapolov. A number of leaders of Ukrainian separatist militias also found themselves on the list, as did the self-proclaimed ministers of the breakaway region of Donetsk.³⁹

³⁵ ‘EU foreign ministers to expand Russia blacklist’, *EUobserver*, 28 January 2015

³⁶ ‘EU threatens more Russia sanctions after Mariupol attack’, *EUobserver*, 25 January 2014

³⁷ ‘Spain: Russia sanctions ‘beneficial for no one’’, *EUobserver*, 11 March 2015

³⁸ ‘US has little faith in Hollande-Merkel trip to Russia’, *EUobserver*, 6 February 2015

³⁹ The full EU list of persons and entities subject to sanctions is available on the EU web page [EU sanctions against Russia over Ukraine crisis](#)

The EU Council agreed these measures before the ceasefire and delayed the implementation of the decision while the Minsk peace talks were in progress, so as not to derail them. After the Minsk meeting, EU leaders decided to go ahead with implementation.

6.2 Breaches of the ceasefire

Only a few days after the ceasefire was agreed, Ukrainian armed forces were forced to flee Debaltseve, a strategic town located between Luhansk and Donetsk, in the face of a rebel offensive. Ukrainian official forces were also accused of breaches of the ceasefire by the rebels.

After a meeting in London, US Secretary of State John Kerry said that Russia had been 'egregious' breaches of the ceasefire and that the US and the EU would prepare more measures. Asked about supplying arms to the Ukrainian government, he said: "We have to see what happens in the next few days with respect to the events that are taking place now on the ground."⁴⁰

Philip Hammond, UK Foreign Secretary, said that the EU would prepare more sanctions:

The European Union will remain united on the question of sanctions, sanctions must remain in place until there is full compliance (with the Minsk agreement). We will prepare possible new sanctions, which could be imposed quickly if there is further Russian aggression or if the Minsk agreement is not complied with.⁴¹

7 Arms and dual-use licensing

7.1 UK strategic exports

Controversy broke out with the publication on 23 July 2014 of the House of Commons Committees on Arms Exports Control report on arms exports.⁴² The committee reported that some arms exports to Russia were still being licenced, despite David Cameron's statement in the House of Commons that the UK had already said that it would not sell any more arms to Russia.⁴³ Paragraphs 472-4 of the Committees on Arms Export Control's report summarises what the Government had already done, giving a table of suspended licences.⁴⁴

Responding to questions about apparent discrepancies prompted by the report and the Committees' chairman, Sir John Stanley MP, a government representative said:

This government has never exported missiles or missile parts to the Russian military. The UK has granted an export licence for the Brazilian navy which enables their vessels to be repaired in 23 countries around the world, including Russia. This covers a wide range of equipment, including components for navy vessel missile launchers but these are exclusively for use by the Brazilian navy and not by Russian forces.

The statement continued:

In March the former foreign secretary announced the suspension of all export licences to the Russian armed forces for any equipment that could be used against Ukraine. This report covers exports in 2013 before the suspension was in place. The majority of

⁴⁰ 'US hardens position on Russia sanctions', *EUObserver*, 23 February 2015

⁴¹ 'Britain - EU to prepare possible new sanctions on Russia over Ukraine', *Reuters*, 6 March 2015

⁴² Committees on Arms Export Controls - First Report, *Scrutiny of Arms Exports and Arms Controls (2014)*, HC 186 2014-15

⁴³ [HC Deb 21 July 2014, c1157](#)

⁴⁴ Committees on Arms Export Controls - First Report, *Scrutiny of Arms Exports and Arms Controls (2014)*, HC 186 2014-15, [para 472](#)

export licences that remain in place for Russia are for commercial use but we are keeping all licences under review. [...] We will not grant a licence where there is a clear risk the equipment might be used for internal repression.⁴⁵

The UK's arms export regime is consistent with the EU-level regime.⁴⁶ Both regimes are legally binding. The operative document remains the Consolidated Criteria.⁴⁷ These criteria operate at both the national and EU-level and are the basis for all UK licensing decisions unless and until the EU agrees additional measures.

The value of UK military and dual-use sales to Russia is small. In 2012, the total value of licences issued was £48.5 million.⁴⁸ This compares with a total value of EU arms export licences issued in 2012 of £193 million but, unlike the UK figure, this does not include dual-use items so the two figures are not comparable.⁴⁹

7.2 Russian imports

Russia is not a large arms importer from any other country either. Its only really large order in recent years is for the French Mistral helicopter assault ships. According to the *Financial Times*, Russia has only signed 10 significant defence import contracts since 2000:

- 4 light transport aircraft from the **Czech Republic**;
- diesel engines from **Germany**;
- 8 drones from **Israel**;
- 60 light armoured vehicles from **Italy**;
- 2 Mistral from **France**;
- light helicopters and 4 amphibious landing craft to complement the Mistral; and
- from **Ukraine**, 264 engines,
- 34 transport aircraft and
- 100 guided missiles.⁵⁰

Most other orders are for small and technologically simple items, acceptable versions of which could probably be produced domestically.

7.3 Mistral French helicopter assault ships

The Mistral class is a helicopter carrier, capable of carrying 16 helicopters, up to four landing craft, 60 armoured fighting vehicles and 450 troops.⁵¹ With a value of about \$600 million each, the Mistral are an important part of Russia's plans to modernise its military and make it more flexible and adaptable.

⁴⁵ 'UK arms export licences for Russia still in place despite claims of embargo – report', *Guardian*, 23 July 2014

⁴⁶ For information on how the UK's arms export control regime works, see *UK Arms Export Control Policy* - Commons Library Standard Note, 24 April 2014

⁴⁷ The full text of the Consolidated Criteria is at the end of the Standard Note cited above, in footnote 32

⁴⁸ Strategic Export Controls Annual Report Data for 2012. NB: the 2013 Annual Report Data gives a figure of £122.6 million

⁴⁹ EU Arms Export Controls Report 2012

⁵⁰ 'Russia has little to lose from arms embargo', *Financial Times*, 22 July 2014

⁵¹ *The Military Balance 2014*, International Institute for Strategic Studies, p96

French president François Hollande says that the first of the two Mistral amphibious assault ships will be delivered in October but that the second delivery will depend on Russia's actions in relation to Ukraine. On 21 July, David Cameron criticised the proposed delivery: 'in this country it would be unthinkable to fulfil an order like the one outstanding that the French have...'⁵² Hollande said on the same day: 'For the time being, a level of sanctions has not been decided on that would prevent this delivery.'⁵³ A spokesperson for the President said: 'For now, France wants the sanctions to be financial, targeted and quick'.⁵⁴

In November 2014, the French government toughened its position on the deal, with President Hollande suspending the delivery of the first of the two ships 'until further notice'.⁵⁵ Russia has asked for a formal answer from the French government as to whether the warships will be delivered or not. If not it wants the money back.⁵⁶

8 Economic costs for the EU

EU member states have varying economic interests and that has made forming a united front difficult. With the weak overall economic picture in the EU, one commentator expressed concern that the crisis between Russia and the West could tip the Eurozone into deflation.⁵⁷

The EU Commission, on the other hand, conducted a study seen by reporters in October 2014 that said that the damage to Europe's economy would 'remain contained'.⁵⁸ The Commission estimated that EU sanctions would reduce EU growth by 0.2 to 0.3 of a percentage point in 2014 and 2015.⁵⁹

Uncertainty

The uncertainty created by a gradually growing sanctions regime could be one of the biggest effects of the present situation. Indeed it may be that the EU is happy with a step-by-step approach, because the uncertainty this causes may itself have a more serious effect on the Russian economy than in the West.

A Commission paper seen by journalists mentions uncertainty and capital flight:

Restricting access to capital markets for Russian state-owned financial institutions would increase their cost of raising funds and constrain their ability to finance the Russian economy, unless the Russian public authorities provide them with substitute financing. It would also foster a climate of market uncertainty that is likely to affect the business environment in Russia and accelerate capital outflows.⁶⁰

Retaliation

Russia is likely to take retaliatory measures. A group of members of the Duma has proposed banning the big Western auditing firms from Russia. Deloitte, KPMG, Ernst and Young, PriceWaterhouseCoopers, Boston Consulting Group and McKinsey are mentioned in press

⁵² [HC Deb 21 July 2014, c1157](#)

⁵³ ['Hollande: Delivery of second Mistral warship depends on Russia's 'attitude'', Euractiv, 22 July 2014](#)

⁵⁴ *Ibid.*

⁵⁵ 'France suspends delivery of Mistral warship to Russia', *Financial Times*, 25 November 2014

⁵⁶ 'Russia Wants Formal French Answer on Mistral', *Defense News*, 13 January 2015

⁵⁷ Wolfgang Münchau, 'Europe must impose financial sanctions on Russia', *Financial Times*, 21 July 2014

⁵⁸ 'EU Projects Impact of Sanctions on Russian Economy', *Wall Street Journal*, 29 October 2014

⁵⁹ 'EU Projects Impact of Sanctions on Russian Economy', *Wall Street Journal*, 29 October 2014

⁶⁰ 'EU blacklists more Russians, prepares economic sanctions', *Euobserver*, 24 July 2014

reports. Another bill is being drafted to provide for the confiscation of Western assets in Russia.⁶¹ Neither bill is certain of being passed into law.

BP

The British oil company BP has a 20% stake in Rosneft, the state-controlled oil company that has already been targeted by US financial sanctions.

On 29 July, BP released a second quarter results statement, showing that the Rosneft stake had boosted its earnings. However, it warned that further sanctions could damage the business:

Any future erosion of our relationship with Rosneft, or the impact of further economic sanctions, could adversely impact our business and strategic objectives in Russia, the level of our income, production and reserves, our investment in Rosneft and our reputation.⁶²

The City

But it is the City of London where much attention is focussed, at least in Britain. The US authorities' imposition of an \$8.9 billion fine on French bank BNP Paribas for breaking US sanctions has had a chilling effect on relations with Russia already, according to one City lawyer:

The big institutions are on a state of alert. The fine on BNP Paribas totally changed the game; a penalty of that type means their tolerance for risk in the area of sanctions is phenomenally low. They will not be making any brave calls on Russia or Ukraine.⁶³

The UK banking regulators have been in discussions with UK banks on the possible impact of further sanctions but their exposure to Russian businesses is reported to be relatively modest.⁶⁴

France

France's sale of two Mistral helicopter assault ships is the most significant arms purchase by Russia from Europe and the French government has resisted calls from some quarters to cancel the sale. Otherwise, Russia's defence imports from the EU are limited.⁶⁵

The French car manufacturer Renault said that its sales to Russia had already fallen by 8% this year. Renault and its partner Nissan control Russian Avtovaz, the makers of Lada cars.⁶⁶

Germany

German exports to Russia have declined sharply in the first four months of 2014.⁶⁷

8.1 Gas

It is the possibility of restrictions on the import of Russian gas that would be the most significant for the EU. Several EU member states are highly dependent on that energy source, as the table at Appendix 1 shows. Austria, Belgium, the Czech Republic, Finland, Greece, Hungary, Poland and Slovakia are the EU countries that import more than half of

⁶¹ 'Duma hits back with proposal to ban Big Four auditing firms', *Financial Times*, 30 July 2014

⁶² 'BP sees profits rise but warns of Russia sanctions risk', *BBC News Online*, 29 July 2014

⁶³ 'Osborne warns UK on financial impact of Russian sanctions', *Financial Times*, 21 July 2014

⁶⁴ *Ibid.*

⁶⁵ 'Moscow has little to lose from defence crackdown', *Financial Times*, 23 June 2014

⁶⁶ 'Europe's companies braced for recoil', *Financial Times*, 30 July 2014

⁶⁷ *Ibid*

their total gas consumption from Russia.⁶⁸ So far the EU has gone out of its way to avoid targetting the gas trade.

The UK imports no gas by pipeline from Russia. However, prices in the UK would probably be affected by EU restrictions, indeed this may already be happening. On Thursday 24 July, wholesale prices moved up slightly, despite warm weather and plentiful supplies at present.⁶⁹

8.2 Russian money in the UK

There has been discussion of rich Russians resident in London and other investments in the UK. However, information about this tends to be anecdotal, as it concerns private individuals. Some were urging financial sanctions on figures such as Roman Abramovich, Alisher Usmanov and Mikhail Fridman, all of whom are thought to be relatively close to Vladimir Putin. John Whittingdale MP, vice-chairman of the Conservative backbench 1922 Committee, said that Vladimir Putin's allies should not be immune from sanctions just because they live in London. 'Nor should we exempt people or companies who have business dealings in London,' Mr Whittingdale continued.⁷⁰

Financial experts say that capital could flow out of London, both from the property market and from other investments. However, a banker was quoted as saying on 24 July that there was no evidence so far of this happening.⁷¹

According to a Commission document, Russian state-owned banks used EU capital markets for nearly half of their bond borrowings in 2013.⁷² London would be particularly affected by any such restrictions.

TheCityUK, a representative organisation for London's financial sector, argued that any financial sanctions should be clear and multilateral in evidence to the House of Commons Treasury Select Committee in May 2014:

- sanctions should be carefully considered and, if the Government deems them necessary, they should be given clarity by the full force of law rather than being expressed as voluntary codes of conduct or foreign policy objectives
- sanctions should be multilateral and consistent, ensuring that the UK is not disadvantaged internationally
- sanctions should be targeted, smartly designed, thought through for all their implications and reviewed regularly in seeking to ensure that sanctions orders are complied with, business is operating heightened due diligence processes, screening contracts and individuals, and deploying additional methods of assessing the impact of various sanctions regimes on their operations.⁷³

In its written evidence, TheCityUK highlighted the cost of compliance measures rather than the cost of lost business or investment.

⁶⁸ In the case of Finland, the amount of gas imported by pipeline from Russia amounts to more than the total consumption. This means that some of the gas is re-exported or goes to increasing reserves

⁶⁹ 'UK GAS-Prices edge up on possible new EU sanctions against Russia', *Reuters*, 24 July 2014

⁷⁰ 'Cameron under pressure to punish Russian oligarchs', *Times*, 24 July 2014

⁷¹ 'Sanctions could mean capital flight from London', *Times*, 24 July 2014

⁷² 'EU blacklists more Russians, prepares economic sanctions', *EUObserver*, 24 July 2014

⁷³ House of Commons Select Committee on the Treasury, Inquiry into the cost effectiveness of economic and financial sanctions, [Supplementary written evidence submitted by TheCityUK](#), 6 May 2014

One City banker has argued that financial sanctions would not be a 'huge deal', directly. It is the indirect damage of uncertainty in the eurozone that would be the problem:

Financial sanctions would not, directly, be a huge deal.

But Britain is right next door to a massive external market (the Eurozone), which is more closely tied to Ukrainian and Russian events. Sanctions would be intended to worsen Russia's economic position, which could quickly blow back to the UK. The MH17 crash could bring home just how close the conflict is to consumers across Europe.

That could spread the economic impact beyond small wobbles in Germany. Russian President Vladimir Putin has the potential to seriously disrupt the Eurozone and UK economies over the coming days, weeks and months.⁷⁴

A researcher for Open Europe countered that the possible damage to the City is being overstated:

A pernicious myth has developed that the City is flooded with Russian cash, and that the UK could try to weaken EU sanctions on Russia. But while the Russian presence may be highly visible, the actual stock of Russian international investments in London is £27bn - a sizable amount, but only 0.5 per cent of total European international assets in the City. It's true that the latest EU sanctions would focus on finance, and if implemented, they would have a disproportionate impact on the UK. Of the €16.4bn (£13bn) raised in the EU by Russian state-owned companies through IPOs between 2004 and 2012, all took place on the London Stock Exchange. However, the actual damage would be small - in the region of hundreds of millions - as only 1 per cent of exported services in these areas go to Russian firms. The real question is why, despite their tough talk, France and Germany, unlike the UK, are not following through with action.⁷⁵

Questions have also been raised about donations to the Conservative Party from wealthy Russians. There was particular controversy about a donation in July 2014 of £160,000 from the wife of a former Russian government minister to the Conservative Party in exchange for a tennis match.⁷⁶

9 Diplomatic sanctions

Members of the Group of 8 group of leading countries decided to suspend Russia, leaving the body returning to its previous identity as the G7, at least for the time being. There was some suggestion that Russia might be expelled altogether but most member countries seem to have decided that they want Russia to be a member of the group in the longer term. The group had planned to meet in Sochi in June 2014 but the meeting was moved to Brussels.

As for Russia's participation in the G20, the Australian foreign minister Julie Bishop suggested that Australia might ban President Putin from attending the 2014 G20 summit in Brisbane. The Brazilian, Russian Indian, Chinese and South African foreign ministers warned Australia that it had no right to do this, however, showing that attempts by Western governments to isolate Russia were not welcome everywhere.

⁷⁴ [Will financial sanctions on Russia significantly damage the City of London?](#), *City AM*, 25 July 2014

⁷⁵ [Will financial sanctions on Russia significantly damage the City of London?](#), *City AM*, 25 July 2014

⁷⁶ [David Cameron to play tennis with Russian donor](#), *Financial Times*, 24 July 2014

Russia got an invitation. However, President Putin left the conference early and there were reports that he got a frosty reception from some other leaders.

In April 2014, the Parliamentary Assembly of the Council of Europe suspended the voting rights of the Russian delegation; the suspension was renewed in January 2015.⁷⁷ Russia responded to the decision by suspending its cooperation with the Parliamentary Assembly.

Relations with the European Parliament are also strained, after critical resolutions were adopted by MEPs. Russia has suspended official visits from the European Parliament and has put some EU officials and MEPs on its stop list, preventing them from entering Russia.

10 Costs for Russia

It is difficult to be sure how much Western sanctions have contributed to the present malaise in the Russian economy. President Putin said in his annual State of the Nation address that Russia would go into recession in 2015, with the Economy Ministry predicting a contraction of 0.8% instead of the previous expectation of 1.2% growth.⁷⁸

It is often the case that it is not the letter of sanctions law that makes the difference, but the chilling effect that it has on transactions that may not technically be covered by the rules but which companies think it safer to abandon. Sanctions are also likely to accelerate the capital flight from Russia, as wealthy individuals seek to protect their assets from Russian economic turbulence.

The European Commission's study on economic costs (mentioned above) estimated that sanctions would reduce Russian growth by 0.6 of a percentage point in 2014 and 1.1 percentage points in 2015.

However, it is very difficult to disentangle the effect of sanctions from the other trends affecting Russia's economic performance: the fall of the oil price and the fall in the value of the rouble. On the oil price, Russia is to a certain extent suffering from the fallout from other battles. OPEC has been reluctant to cut its production in recent months probably because a low oil price will maintain pressure on Iran's economy and make marginal investments in the US shale oil industry uneconomic. However, Russia, whose government is highly dependent on oil revenues, is one of the most vulnerable countries to oil price declines, as the

11 Reaction

Sanctions allow Western countries to coordinate their response and to do something short of military action; they have significant cross-party support in the UK. Labour leader Ed Miliband said in February 2015 that the EU should be ready to impose further trade sanctions:

It is vital that the international community stands ready to increase the pressure by extending economic sanctions if President Putin refuses to change course. [Will the Prime Minister] reassure us that if Russia fails to meet its obligations under the terms of the Minsk agreement in the coming days there is an appetite in other EU countries for a united position on further sanctions against Russia? President Putin must understand that he risks further isolating Russia on the world stage if he continues to

⁷⁷ For more on this, see the House of Commons Library Standard Note [Russia and the Council of Europe](#), 5 March 2015

⁷⁸ ['Russia warns of recession in 2015'](#), *BBC News Online*, 2 December 2014

display belligerence and aggression in the face of international laws and norms. The world will act.⁷⁹

Angus Robertson, for the Scottish National Party, has endorsed the EU's sanctions approach.⁸⁰

The reaction in the UK press to proposed trade sanctions has been mixed, however. In a leading article, the *Daily Telegraph* said that they would hurt the UK while allowing other EU countries to continue with business as usual:

...as we have observed before, this exercise seems largely designed to damage the City of London, while enabling other EU countries to carry on with the essentials of their relationship with Moscow largely intact. The deal under which France is building two warships for Russia will go ahead, for instance; and while existing financial contracts are to be honoured, London's institutions will inevitably take a bigger hit than anywhere else.

What is the point of this? The haphazard set of restrictions imposed on 90 or so wealthy individuals and 20 institutions allegedly connected to Vladimir Putin's government is making no difference at all. Moreover, these sanctions are not even aimed at the administration itself, and it is questionable how much influence the oligarchs have over its decisions.⁸¹

Dmitri Trenin, of the Carnegie Moscow Centre, argued that sanctions show no sign of working:

The idea that a combination of western sanctions and the low oil price can bring a change in Kremlin policies, or a change in the Kremlin itself, has so far not been borne out by the facts. Putin remains defiant, the elites do not turn against him, and his popularity among the bulk of the Russian people, despite the hardships they have begun to feel, is at record levels. These people are not ignorant of the dangers a continued conflict over Ukraine can pose to them, but lay the blame for these on Kiev, Washington and the European leaders. Putin, whether as war leader or a peacemaker, is their champion.⁸²

Sir Tony Brenton, former UK ambassador in Moscow, argued that sanctions would be counter-productive, both because Vladimir Putin is riding high on nationalistic approval in Russia, and because they could force Russia to turn away from the West:

Sanctions have the attraction of being visible and punitive. But they won't work. They bring to mind the Russian story of the peasant who, infuriated by the slowness of his horse, beats the poor beast to death, and thus has no means of transport, however slow. The West has deployed sanctions against Russia/USSR six times since the Second World War. They have never worked. The shambolic boycott of the 1980 Moscow Olympics - imposed as part of a range of sanctions following the invasion of Afghanistan - should give real pause to those now pressing for a boycott of Russia's 2018 World Cup. It was Afghan fighters, not Western pressure, that finally drove Moscow's soldiers out.

⁷⁹ [HC Deb 23 Feb 2015, c37](#)

⁸⁰ [HC Deb 25 Feb 2015 c324](#)

⁸¹ 'Grandstanding over MH17 punishes us more than Putin', *Daily Telegraph*, 29 July 2014

⁸² Dmitri Trenin, 'Ukraine Points Towards the Start of a Tumultuous New Era in World Politics', Carnegie Moscow Centre, 15 February 2015

In countries as prickly as Russia, sanctions simply strengthen the forces most hostile to the West. It has even become a badge of patriotic pride among senior Russians to be on the sanctions list. Every new round reinforces Putin's standing with the public as their champion against a predatory West. Sanctions also strengthen that significant body of elite Russian thought which argues that Russia's dependence on economic links with the West is dangerous. They want to see a much more autonomous and state-led style of development - to slam the door on the Western influence and ideas which have been one of the most hopeful developments in Russia's sad recent history. Given this, it is no surprise that even key political opponents of the Putin regime, notably Mikhael Khodorkovsky, have condemned sanctions as counterproductive.⁸³

In evidence to the House of Lords European Union Committee, one witness said that it would be difficult to change the Russian policy:

...for the simple reason that Putin and the elite have identified their position so much with power and Russian pride that it will be very hard to force them, by sanctions or whatever, to step back.⁸⁴

⁸³ 'Sanctions won't work – we will have to negotiate with Vladimir Putin', *Daily Telegraph*, 24 July 2014

⁸⁴ *The EU and Russia: before and beyond the crisis in Ukraine*, House of Lords European Union Committee, sixth report of 2014-15, HL 115, 20 February 2015

European pipeline natural gas imports 2013

Natural Gas: Trade movements 2013 by pipeline

Billion cubic metres

To	From											Total imports	Total consumption	Russian imports as % of total consumption
	Netherlands	Norway	United Kingdom	Other Europe	Kazakhstan	Russian Federation	Turkmenistan	Other Former Soviet Union	Iran	Algeria	Libya			
Austria	-	1.2	-	0.5	-	5.1	-	-	-	-	-	6.8	8.49	60.59%
Belgium	5.4	9.4	2.5	-	-	12.3	-	-	-	-	-	29.6	16.82	72.84%
Czech Republic	-	3.8	-	-	-	7.2	-	-	-	-	-	11.0	8.42	85.43%
Finland	-	-	-	-	-	3.5	-	-	-	-	-	3.5	2.84	123.21%
France	6.5	15.5	-	0.4	-	8.1	-	-	-	-	-	30.5	42.83	18.85%
Germany	22.4	33.5	-	†	-	39.8	-	-	-	-	-	95.8	83.65	47.62%
Greece	-	-	-	0.6	-	2.4	-	-	-	-	-	3.0	3.58	66.37%
Hungary	-	-	-	-	-	5.9	-	-	-	-	-	5.9	8.56	68.91%
Ireland	-	-	4.9	-	-	-	-	-	-	-	-	4.9	4.50	0.00%
Italy	8.6	1.1	-	0.3	-	24.9	-	-	-	11.4	5.2	51.6	64.23	38.78%
Netherlands	-	4.8	1.6	13.0	-	2.1	-	-	-	-	-	21.5	37.07	5.65%
Poland	-	-	-	1.8	-	9.6	-	-	-	-	-	11.4	16.68	57.76%
Slovakia	-	-	-	-	-	5.3	-	-	-	-	-	5.3	5.39	98.82%
Spain	-	2.7	-	1.3	-	-	-	-	-	11.4	-	15.3	28.97	0.00%
Turkey	-	-	-	-	-	26.2	-	3.3	8.7	-	-	38.2	45.64	57.33%
United Kingdom	9.5	29.1	-	3.3	-	-	-	-	-	-	-	41.9	73.11	0.00%
Other Europe	0.8	1.2	0.0	6.8	-	10.0	-	-	-	2.0	-	20.7		
Europe	53.2	102.4	8.9	28.1	-	162.4	-	3.3	8.7	24.8	5.2	397.1		
Belarus	-	-	-	-	-	18.1	-	-	-	-	-	18.1		
Russian Federation	-	-	-	-	11.5	-	9.9	6.4	-	-	-	27.8		
Ukraine	-	-	-	1.8	-	25.1	-	-	-	-	-	26.9		
Other Former Soviet Union	-	-	-	-	0.2	5.6	1.1	3.8	0.7	-	-	11.4		
Former Soviet Union	-	-	-	1.8	11.7	48.9	11.0	10.1	0.7	-	-	84.2		

Source: Includes data from Cedigaz, CISStat, FGE MENAgas service, IHS CERA, PIRA Energy Group.

Data compiled in the [BP Statistical Review of World Energy June 2014](#)

Top exporters to and importers from Russia

Russia's top 10 export markets, 2012

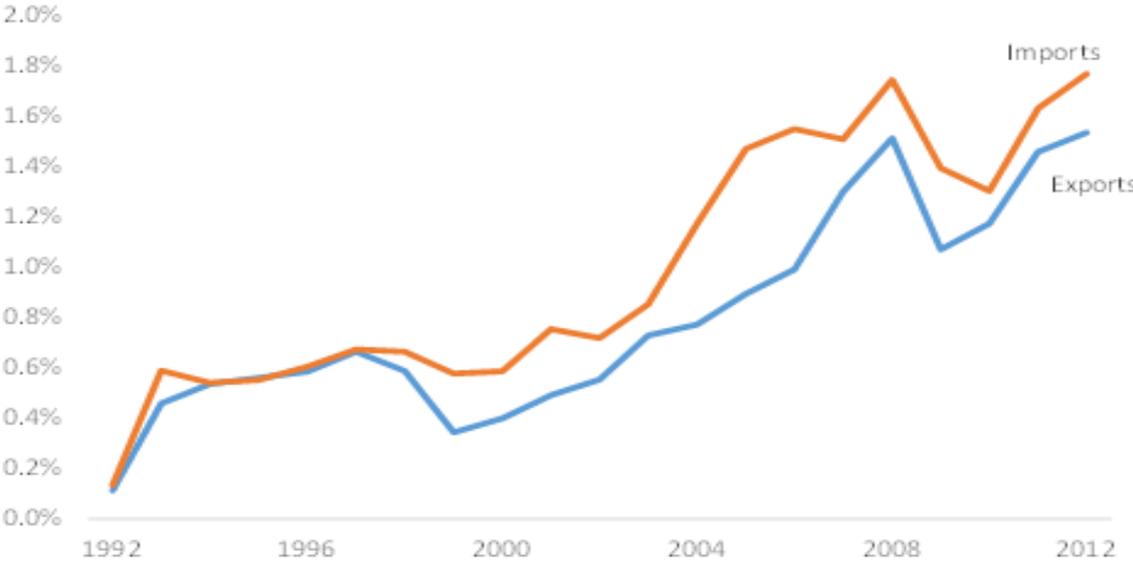
	Country	Exports from Russia, \$bn
1	Netherlands	75.8
2	China	33.6
3	Italy	27.9
4	Germany	23.4
5	Belarus	20.8
6	Poland	19.6
7	Turkey	16.0
8	Japan	15.1
9	Ukraine	13.9
10	Republic of Korea	13.8
14	UK	9.1

Source: UNCTAD trade statistics

Russia imports of goods: top 10 sources

	Country	Imports, \$ bn
1	China	49.7
2	Germany	43.8
3	Ukraine	19.0
4	Belarus	15.3
5	Italy	13.6
6	US	12.2
7	France	11.5
8	Japan	11.2
9	Republic of Korea	10.3
10	Poland	9.2
14	UK	6.9

Russia's share of UK exports and imports (Goods and services)



Source: UK Pink Book 2013, Table 9.3