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U.S.-EU Cooperation on Ukraine and Russia

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Political Context

The United States and the 28-member European Union (EU) have pursued similar policies in response to the crisis in Ukraine. Both have provided additional financial aid to bolster Ukraine's political transition, condemned Russia's annexation of Crimea, and called for Russia to end its support of separatists in eastern and southern Ukraine. The United States and the EU have taken steps to isolate Russia diplomatically and imposed targeted economic sanctions in an effort to change Moscow's behavior and bring an end to the conflict. (For background, see CRS Report RL33460, *Ukraine: Current Issues and U.S. Policy*, by Steven Woehrel.)

Initially, some U.S.-EU differences were evident as the two sides grappled with how best to respond to Russia's actions. EU officials were more wary than their U.S. counterparts of sanctioning Russia because of significant EU-Russian trade and investment ties and the dependence of some EU countries on Russian oil and gas supplies (see CRS Insight IN10119, *U.S.-Russia Economic Relations*, by Rebecca M. Nelson, and CRS Report RL33407, *Russian Political, Economic, and Security Issues and U.S. Interests*, coordinated by Jim Nichol and Steven Woehrel). Between March and early July 2014, the EU and the United States announced visa bans and asset freezes on several dozen Russians and Ukrainians; while the United States included members of Russian President Vladimir Putin's "inner circle" and key firms or banks associated with them, the EU did not due to concerns about antagonizing Russia.

U.S. officials insisted publicly that they would prefer to escalate sanctions on Russia in cooperation with the EU, but many, including some Members of Congress, were frustrated with the reluctance of certain EU countries to agree to tougher sanctions. Despite a lack of parallel EU action, on July 16, President Obama announced wider-ranging U.S. sanctions on select Russian financial, energy, and defense companies (see CRS Insight IN10048, U.S. Sanctions on Russia in Response to Events in Ukraine). However, subsequent events—including the downing of Malaysian Airlines Flight MH17 and indications of increased Russian involvement in the conflict—have prompted a harder EU stance.

Stronger EU Sanctions

The July 17 crash of MH17 over eastern Ukraine that killed 298 people (mostly EU citizens) changed the political calculus in Europe. U.S. intelligence asserted that MH17 was shot down by separatists with a missile supplied by Russia. U.S. and EU leaders alike called for a full investigation and reiterated that Russia must stop the flow of weapons and other assistance to the separatists.

By late July, continued Russian intransigence prompted the EU to impose more extensive sanctions. On July 22, the EU took steps to add more individuals and companies to the list of those subject to EU travel bans and asset-freezing measures, including for the first time some of Putin's "inner circle." On July 29, the EU reached political agreement on sanctions targeting Russia's financial, defense, and energy sectors.

The EU began considering even tighter sanctions at the end of August amid growing evidence of direct Russian engagement in the fighting in eastern and southern Ukraine. Despite a ceasefire, enhanced EU sanctions entered into force on September 12. Experts note that the EU sanctions have been carefully crafted, both to protect specific EU interests, and to share the economic burden throughout all 28 EU member states. Together, the EU sanctions imposed in July and September:

- **Restrict Russia's access to EU capital markets**. Buying or selling debt, equity, or other financial instruments issued by five Russian state-owned banks with a maturity of over 30 days is prohibited. Related services, such as brokering, are also banned, as are most loans. These measures were perhaps most controversial for the United Kingdom, whose financial industry has attracted considerable Russian investment, as well as for Cyprus and some Central European countries with exposure to Russian banks. These same capital market access restrictions apply to three major Russian energy companies (including Rosneft) and three key defense firms. European subsidiaries of the targeted entities are exempted.
- **Ban future EU exports and imports of arms and related materiel.** France sought to ensure that this measure would apply only to future deals largely to allow its previously contracted sale of two Mistral-class helicopter carriers to Russia to proceed (although delivery of the first one is now on hold), as did some Central European countries that rely on Russian companies to service their Soviet-era weapon systems.
- **Prohibit sales of dual-use goods and technology for Russian military end-users.** Sales of dual-use items to nine mixed defense companies are also banned. The EU considered a general prohibition on dual-use exports to civilian end-users, but some member states were reportedly opposed; a blanket ban on civilian end-users would have hit Germany's specialized engineering and manufacturing firms particularly hard.
- **Ban sales of certain oil exploration equipment and technology.** EU companies are prohibited from exporting products to Russia destined for arctic, deep water, or shale oil exploration; related services such as drilling, logging, and well-testing are also banned. Similar restrictions were not applied to Russia's gas sector; Germany and other EU countries highly dependent on Russian gas exports feared retaliation.

U.S.-EU Coordination and Implications

Both of the latest rounds of EU sanctions were introduced in close coordination with the United States, which also announced new sanctions on July 29 and September 12 aimed at closing many (albeit not all) gaps with the EU regime. President Obama asserted that the combined U.S.-EU measures would "have an even bigger bite." U.S.-EU restrictions on capital market access now apply to the same banks, including Sberbank, Russia's largest lender, and similar U.S.-EU prohibitions have been imposed on the sale of oil exploration equipment, technology, and related services.

Observers contend that such U.S.-EU cooperation demonstrates renewed solidarity on Ukraine while frustrating Russian efforts to drive a wedge between the transatlantic partners. At the same time, analysts point out that the sanctions are not completely harmonized. For example, both the United States and the EU have imposed a travel ban and asset-freeze on Sergei Chemezov, a close Putin associate and head of the Rostec defense conglomerate, but only the United States has limited Rostec's access to capital markets. In addition, while EU restrictions on the provision of certain services related to oil exploration applies only to future contracts, U.S. firms must wind down existing service projects by September 26. Some experts suggest that U.S.-EU tensions could also resurface if some EU members begin pressing to roll back certain sanctions given the current ceasefire in Ukraine.