# CRS Insights

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. (For background, see CRS Report RL33460, *Ukraine: Current Issues and U.S. Policy*). Both have provided additional financial aid to bolster Ukraine's political transition, condemned Russia's annexation of Crimea, called for Russia to end its support of separatists in eastern and southern Ukraine, and taken steps to isolate Russia diplomatically. Between March and early July 2014, the EU and the United States announced visa bans and asset freezes on several dozen Russians and Ukrainians.

Initially, however, many European officials were more wary than their U.S. counterparts of imposing stronger sanctions because of significant EU-Russian trade and investment ties and the dependence of some EU countries on Russian oil and gas supplies (see CRS Report RL33407, *Russian Political, Economic, and Security Issues and U.S. Interests*). 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, President Obama announced U.S. sanctions on select Russian financial, energy, and defense companies on July 16 (see CRS Insight IN10048, *U.S. Sanctions on Russia in Response to Events in Ukraine*).

Stronger EU Sanctions

The July 17 crash of Malaysian Airlines Flight 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. Continued Russian intransigence, however, generated greater EU will to impose more stringent 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 Russian President Vladimir Putin's "inner circle." On July 29, the EU reached political agreement on sanctions targeting Russia's financial, defense, and energy sectors. Even tighter EU sanctions entered into force on September 12 amid growing evidence of direct Russian engagement in the fighting in eastern and southern Ukraine.

Experts note that the EU sectoral sanctions have been carefully crafted, both to protect specific EU interests, and to share the economic burden throughout all 28 EU members. 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

The EU's sectoral sanctions were introduced in close coordination with the United States, which also announced more extensive 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 and similar U.S.-EU prohibitions have been imposed on the sale of oil exploration equipment, technology, and related services. In December 2014, the EU and the United States issued another round of coordinated sanctions that restrict or ban most investment, trade, and tourism with Crimea.

Observers contend that such U.S.-EU cooperation demonstrates 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 the 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 were required to wind down existing service projects.

U.S.-EU tensions could arise if the EU decides to roll back its sectoral sanctions on Russia, which expire at the end of July 2015 and will require unanimity to renew (a separate EU decision on renewing the travel bans and asset freezes comes due in March 2015). Press reports indicate that the EU High Representative for foreign policy, supported by some member countries, recently drafted a proposal to ease sanctions if Russia complies with a September 2014 ceasefire agreement and makes progress toward resolving the crisis over Ukraine. A resurgence of combat in eastern Ukraine in January 2015, however, appears to have led the High Representative to backtrack on this proposal for the time being and to emphasize that it would depend on Russia's "full implementation" of the ceasefire agreement. There is also a risk of diverging U.S. and EU approaches should the United States impose additional sanctions on Russia absent a corresponding European move, or provide significant lethal military aid to Ukraine, as authorized in the recently enacted Ukraine Freedom Support Act of 2014 (P.L. 113-272).