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U.S.-EU Cooperation on Ukraine and Russia
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Background

The United States and the 28-member European Union (EU) have pursued similar policies in response to the conflict in Ukraine. (For background, see CRS Report RL33460, *Ukraine: Current Issues and U.S. Policy*.) Both have provided financial aid to bolster Ukraine's political transition and economy, condemned Russia's annexation of Crimea, and called for Russia to end its support of separatists in eastern Ukraine. They have also urged the full implementation of the September 2014 and February 2015 ceasefire agreements.

Following the annexation of Crimea in March 2014, the EU and the United States adopted a series of visa bans and asset freezes on several dozen Russian and Ukrainian individuals and entities. Despite the subsequent conflict in eastern Ukraine, however, many European officials were wary initially of imposing stronger sanctions that they feared might isolate and provoke Russia and jeopardize trade and investment relations; some EU countries highly dependent on Russian oil and gas supplies also worried about endangering energy sector ties. 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. In the absence of parallel EU action, President Obama announced U.S. sanctions on select Russian financial, energy, and defense companies on July 16, 2014 (see CRS Report IN10048, *U.S. Sanctions on Russia in Response to Events in Ukraine*).

Expanding EU Sanctions

The July 17, 2014, downing 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 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 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 same capital market access restrictions apply to three major Russian energy companies (including Rosneft) and three key defense firms. European subsidiaries of sanctioned entities are exempted. In general, measures targeting financial services were perhaps most controversial for the United Kingdom and Cyprus, whose banks and financial industries have attracted a considerable number of wealthy Russian clients over the years.

- **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 reportedly considered a general prohibition on dual-use exports to civilian end-users, but some member states were 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 dependent on Russian gas exports feared retaliation.

U.S.-EU Coordination

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 most 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 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. U.S.-EU sanctions are largely aligned, although a few differences remain. For example, the list of sanctioned individuals and entities is not completely harmonized. 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 (the EU recently agreed to renew and extend the travel bans and asset freezes). The EU High Representative for foreign policy, supported by some member countries, drafted a proposal in late 2014 to ease sanctions if Russia makes progress toward resolving the crisis over Ukraine. A resurgence of combat in eastern Ukraine in January and February 2015, however, led the High Representative to backtrack on this proposal for the time being.

Despite the latest ceasefire agreement in February 2015, EU leaders remain cautious and have directed work to begin on tougher sanctions should the situation in Ukraine deteriorate further. At the same time, observers see little appetite in the EU for additional sectoral sanctions on Russia, and arguments for lifting the sanctions continue to be heard. There is also a risk of diverging U.S. and EU approaches should the United States impose more stringent sanctions on Russia absent a corresponding European move, or provide significant lethal military aid to Ukraine, as authorized in the Ukraine Freedom Support Act of 2014 (P.L. 113-272).