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IN FOCUS

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New Financial and Trade Sanctions Against Russia

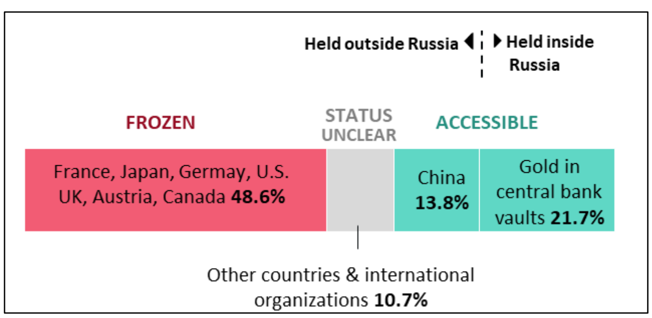
On February 24, the Russian Federation (Russia) launched a full-scale invasion of Ukraine. The United States and allies have responded with sanctions and other actions, affecting economic engagement, access to financial instruments and resources, and trade, against Russia that are unprecedented in terms of their comprehensiveness, coordination, and swiftness. Within the United States, the new measures were primarily imposed by the executive branch. Congress has sought to widen the range of economic targets and to curtail further the Russian government's access to financial and other resources.

Financial Sanctions

Given the primacy of the U.S. dollar and U.S. financial markets in the global economy, financial sanctions are a particular source of U.S. economic leverage with respect to Russia.

Central Bank Sanctions. The United States, European Union (EU), United Kingdom, Canada, and Japan suspended transactions with Russia's central bank. These sanctions block Russia's access to its holdings of foreign exchange reserves in these jurisdictions. Russia's reserves totaled $630 billion at end-January 2022. Based on the most recent data available (from June 2021), about half of Russia's central bank reserves may be frozen. These sanctions significantly limit the resources available to Russia to fund its war effort and support its economy. The main funds still accessible to Russia's central bank are reserves held in China and gold stored in central bank vaults (approximately $220 billion).

Figure 1. Bank of Russia Reserves: Estimating the Portion Frozen



Source: CRS using Bank of Russia data for June 2021 (latest available).

Notes: Russia's central bank may have reallocated its reserve holdings between June 2021 and February 2022. These figures should be viewed as estimates.

SWIFT Sanctions. At the direction of the EU and with support from the other G-7 countries, the Society for Worldwide Interbank Financial Telecommunications (SWIFT) removed seven Russian financial institutions from its system. Globally, financial institutions use SWIFT to send payment instructions to other banks in order to process payments; more than 11,000 financial institutions from more than 200 jurisdictions use its services. Removing key Russian financial institutions from SWIFT makes it difficult for them to process cross-border payments. The purpose of excluding some but not all Russian banks from SWIFT is in part to allow for continued payments for European imports of Russian natural gas.

Sovereign Debt and Banking Sector Sanctions. The United States and allies expanded sanctions on Russian sovereign debt and several Russian financial institutions. In the United States, the sanctions tighten restrictions on U.S. purchases of Russian government bonds, limit the ability of Russia's largest bank (Sberbank) to transact in U.S. dollars, and impose full blocking sanctions (freezing assets and banning transactions) on Russia's second largest bank (VTB) and two Russian state investment funds (VEB and the Russian Direct Investment Fund, a Russian sovereign wealth fund), among other measures. These sanctions have exemptions, including for energy transactions, but, combined with other international sanctions on Russia, generally restrict Russia's ability to borrow from Western capital markets and process transactions in U.S. dollars.

General Investment Prohibition. The Biden Administration prohibited new investment in the Russian energy sector. Additionally, President Biden has also prohibited investment in any additional sector of the Russian economy, as determined by the Secretary of the Treasury.

Trade Sanctions and Actions

The Biden Administration has taken several actions that limit trade with Russia. U.S.-Russia trade flows were relatively low before Russia's war on Ukraine: Russia accounts for less than 1% of U.S. exports and about 1% of U.S. imports. The United States, however, is an important source of technology used in a variety of goods imported by Russia, and coordination on trade restrictions with allies amplifies their significance.

Export Controls. The U.S. Department of Commerce's Bureau of Industry and Security announced new rules restricting the transfer of certain U.S.-origin technologies to Russia and Belarus. All exports of controlled electronics, computers, telecommunications, sensors, lasers, and navigation, avionics, marine, aerospace, and propulsion technologies now require a license (with a few exceptions). Applications will be reviewed under a presumption of denial. The new rules also restrict the export of such goods *produced in foreign countries* using controlled U.S. technology. Stricter rules are also in place for restricting exports to specified military end users. More than 30 countries have announced or are already implementing, similar controls.

Export and Import Restrictions. President Biden prohibited the export to Russia of U.S. dollar denominated bank notes and luxury goods, and has prohibited the import from Russia of various products, including crude oil and petroleum products, coal, non-industrial diamonds, seafood, and alcoholic beverages. In 2021, approximately 8% of U.S. imports of fossil fuels came from Russia. The President also provided broad discretion to executive branch agencies to prohibit additional U.S. exports to and imports from Russia.

Revoke PNTR. The Biden Administration has announced that it will work closely with Congress to revoke Russia's permanent normal trade relations (PNTR or most-favored-nation [MFN]) treatment. Revoking PNTR for Russia would increase the average unweighted *ad valorem* tariff on Russian imports from approximately 4% to approximately 30%. Revoking PNTR requires congressional legislation, and several bills have been introduced to revoke PNTR for Russia (e.g., H.R. 6835, H.R. 7014, S. 3717, S. 3722). The other G-7 countries have pledged to revoke normal trade relations with Russia as well. (For more, see CRS Insight IN11881, *Invasion of Ukraine: Russia's Trade Status, Tariffs, and WTO Issues*, by Cathleen D. Cimino-Isaacs and Liana Wong.)

Private Companies Withdrawing from Russia

Many U.S. and international companies have suspended operations in Russia, left Russia altogether, or terminated transactions with Russia, due to concerns about violating new or potential sanctions, economic instability in Russia, threat of nationalization or expropriation, and corporate reputations. According to data compiled by researchers at the Yale School of Management, more than 350 companies, across a range of sectors, have suspended or limited transactions with Russia. Examples include Apple, EY, FedEx, Formula One, Harley-Davidson, H&M, John Deere, Lego, Mastercard, Mattel, McDonald's, McKinsey, Netflix, Nike, PayPal, PwC, Rolls Royce, Rolex, Starbucks, TikTok, UPS, Vanguard, and Visa. Some U.S. and other international companies continue operations in Russia.

Additional Measures under Consideration

Members of Congress have introduced a number of sanctions bills, as well as bills to mitigate the impact of sanctions on the U.S. economy.

Restricting Trade. Several bills call for import restrictions on a variety of products. Some seek to legislatively restrict imports of Russian fossil fuels (e.g., S. 3754, S. 3718). One targets minerals like nickel and copper (H.R. 7044). At least one bill that calls for a full embargo on all trade with Russia (H.R. 6995). Some legislation would advocate for Russia's suspension from the World Trade Organization (S. 3717, S. 3722).

Tightening Financial Sanctions. Several bills would further restrict Russia's ability to access financial resources or participate in financial markets more generally. Examples include measures to limit Russia's ability to gold reserves (S. 3771; H.R. 7068), prohibit all transactions in Russian sovereign debt (H.R. 6900), limit Russia's ability to use reserve resources from the International Monetary Fund (H.R. 6899), prohibit transactions in any security or related derivatives of entities incorporated in Russia (H.R. 6995), and seek to exclude Russian officials from international economic meetings (H.R. 6891).

Mitigating the Impact on the U.S. Economy. Several bills attempt to mitigate the sanctions' impact on the U.S. economy. One bill, for example, would suspend portions of the Jones Act for the duration of any ban on the transportation of crude oil or petroleum products from the Russian Federation (H.R. 6974). The Jones Act requires goods shipped between U.S. ports to be transported on ships that are built, owned, and operated by United States citizens or permanent residents. Other bills seek to expand U.S. fossil fuel production (H.R. 6916, S. 3752) and mitigate the effects of the oil embargo (S. 3815).

Russia's Economic Retaliatory Responses

Russia has responded to international sanctions, driven by both a desire to retaliate and salvage their economy. For example, the Russian government is restricting the export of certain goods and agricultural commodities; allowing Russian businesses to use intellectual property held by companies from "unfriendly countries" without their consent and compensation; directing Russian borrowers to repay debts to "unfriendly" countries in rubles; banned brokers from selling securities held by foreigners; and sanctioned several U.S. officials.

Other measures reportedly under consideration include restricting foreign ships from entering Russian ports, allowing Russian airlines to register jets leased from non-Russian firms as their own property, and nationalizing assets of foreign-based firms that suspend or stop work and leave assets behind. Russian officials have also threatened to cut off gas supplies to Europe if their governments curtail energy imports.

Policy Issues for Congress

As Congress considers U.S. sanctions against Russia, it may want to consider:

- the economic impact of sanctions and retaliatory measures on Russia, the United States, and the global economy;
- the effectiveness of sanctions in changing the actions of foreign governments;
- the interaction of sanctions and other foreign policy tools; and
- the conditions under which the United States and allies would lift sanctions and other measures on Russia.

Also see CRS Insight IN11869, *Russia's Invasion of Ukraine: Overview of U.S. and International Sanctions and Other Responses*, by Cory Welt.

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