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Russia's War on Ukraine: Financial and Trade Sanctions

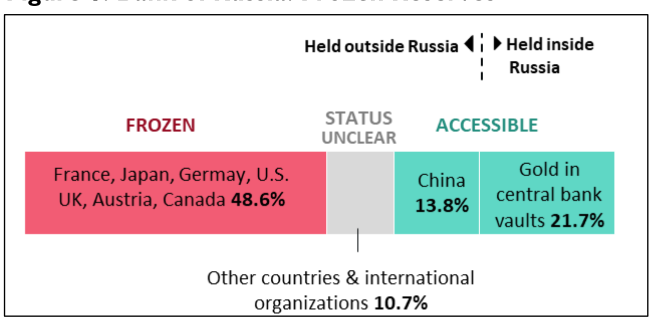
In February 2022, Russia launched a new, expanded war on Ukraine. The United States and allies responded with wide-ranging sanctions on Russia that are unprecedented in terms of their comprehensiveness, coordination, and speed. Many of the sanctions implemented by the Biden Administration and the 117th Congress target Russia's financial and trade relationships with the United States. The 118th Congress might conduct oversight of these and other sanctions and consider legislation that further shapes U.S. sanctions on Russia.

Financial Sanctions

The U.S. dollar and financial system are widely used to process cross-border transactions, and U.S. financial sanctions are a particular source of U.S. economic leverage. Since February 2022, financial sanctions have targeted Russia's central bank, financial sector, and access to international capital.

Central Bank Reserves. In February 2022, the United States, in coordination with the European Union (EU), United Kingdom, Canada, and Japan, blocked the Russian central bank's access to its holdings of foreign exchange reserves. About $300 billion of Russia's central bank reserves were frozen (**Figure 1**). The main funds that were not frozen were reserves held in China and gold stored in central bank vaults.

Figure 1. Bank of Russia: Frozen Reserves



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.

In December 2022, Congress passed legislation to limit the usability of the Russian central bank's gold, by establishing sanctions on foreign persons who participate in significant transactions with Russian gold (P.L. 117-263 §5590). Congress also passed legislation prohibiting U.S. transactions with Russia involving International Monetary Fund (IMF) reserve assets (called special drawing rights [SDRs]) (P.L. 117-185), a resource that central banks might utilize during periods of economic stress.

Financial Messaging Systems. At the direction of the EU and with support from the other G7 countries, the Society for Worldwide Interbank Financial Telecommunications (SWIFT) in 2022 removed several Russian financial institutions from its system, including the largest bank in Russia (Sberbank). Globally, financial institutions use SWIFT to send payment instructions to other banks 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. Some but not all Russian banks were removed from SWIFT to allow for continued payments for European imports of Russian natural gas. Russia has substantially reduced natural gas flows to Europe since the start of the expanded war.

Russian Financial Institutions. The United States has frozen U.S.-based assets of and imposed restrictions on transactions with Russia's two largest banks, Sberbank and VTB, whose assets account for more than half of the Russian banking system. The United States has also applied full blocking sanctions on five other systemically-important financial institutions in Russia (Alfa Bank, Bank Otkritie, Promsvyazbank, Rosbank, and Sovcombank), and debt and equity restrictions on three systemically-important financial institutions (Credit Bank of Moscow, Gazprombank, and Rosselkhozbank). Additionally, the United States sanctioned the Russian Direct Investment Fund (RDIF, a Russian sovereign wealth Fund) and VEB (a Russian state development fund), among others. Overall, U.S. sanctions restrict dealings with 80% of Russian banking sector assets. In general, the sanctions make it hard, if not impossible, for Russian financial institutions to process transactions in U.S. dollars. U.S. allies have imposed similar restrictions on Russian financial institutions.

International Capital Markets. The Biden Administration expanded sanctions on Russian sovereign debt (bonds issued by the Russian government), including prohibiting U.S. financial institutions from processing debt payments from the Russian government to foreign investors. As a result, Russia defaulted on its debt in June 2022. The Administration also banned new investment in Russia. Coordinated with allies, these sanctions limit the ability of Russia's ability to access financial resources from the United States and allies.

Trade Measures

U.S.-Russia trade flows were relatively low before Russia's expanded war on Ukraine: Russia accounted for less than 1% of U.S. exports and about 1% of U.S. imports in 2021. 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 the significance of these restrictions.

Export Controls. The U.S. Department of Commerce's Bureau of Industry and Security (BIS) 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). BIS is to review applications 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, nonindustrial diamonds, seafood, and alcoholic beverages. In April 2022, Congress passed legislation prohibiting the import of Russian oil and other energy products (P.L. 117-109). In 2021, approximately 8% of U.S. imports of fossil fuels came from Russia.

The Administration also banned certain service exports to Russia, including accounting, trust and corporate formation, management consulting, and quantum computing, among others. The Administration has further provided broad discretion to executive branch agencies to prohibit additional U.S. exports to and imports from Russia.

Revoke PNTR. Congress suspended permanent normal trade relations (PNTR, or most-favored-nation [MFN]) with Russia and its ally Belarus (P.L. 117-110). Revoking PNTR for Russia increases the average unweighted *ad valorem* tariff on Russian imports from approximately 4% to approximately 30%. (For more, see CRS In Focus IF12071, *Russia's Trade Status, Tariffs, and WTO Issues*, by Cathleen D. Cimino-Isaacs et al.)

International Companies Withdrawing from Russia

Since February 2022, more than a thousand U.S. and multinational 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, companies that have withdrawn from Russia and reduced engagement with Russia span a range of sectors. 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 multinational companies continue operations in Russia.

Oil Price Cap. In December 2022, the United States, in conjunction with the other G7 countries and Australia, imposed a price cap (currently $60/barrel) on seaborne exports of crude oil from Russia. The sanctions prohibit the provision of shipping, insurance, trade finance, and other key services that support Russian oil shipments above the price cap. The oil price cap intends to limit revenue earned by the Russian government from oil exports, while maintaining continued Russian supply to global markets.

Additional Trade & Finance Measures

During the 117th Congress, some Members of Congress introduced bills that would have imposed additional financial and trade sanctions on Russia. Examples include:

- prohibiting imports of nickel and copper from Russia (H.R. 7044);
- imposing a full trade embargo on Russia (H.R. 6995);
- urging suspension of Russia's membership at the World Trade Organization (S. 3717, S. 3722);
- banning certain Russian investments in U.S. agricultural companies (H.R. 8274);
- opposing Russia's participation and membership in the G20, a key forum for economic cooperation (S. 4001);
- prohibiting transactions in any security or related derivatives of entities incorporated in Russia (H.R. 6995);
- seeking to exclude Russian officials from international economic meetings (H.R. 6891); and
- prohibiting transactions with foreign entities that facilitate digital asset transactions with sanctioned Russian entities (S. 3867).

In addition to potentially revisiting these measures proposed in the prior Congress, the 118th Congress could consider sanctions targeting additional Russian financial institutions and state-owned enterprises, restricting further Russia's access to U.S.-origin technologies, and advocating for suspension of Russia's membership at the international financial institutions.

Select Policy Questions Facing Congress

As Congress considers the scope and impact of U.S. sanctions against Russia, it might consider:

- What is the economic impact of sanctions on Russia, the United States, and the global economy?
- To what extent are sanctions an effective policy response to Russia's war on Ukraine?
- How should sanctions interact with other foreign policy tools?
- Under what conditions would the United States and allies lift, tighten, or maintain sanctions?

Related Products

- CRS Insight IN11869, *Russia's War Against Ukraine: Overview of U.S. Sanctions and Other Responses*, by Cory Welt.
- CRS In Focus IF12092, *The Economic Impact of Russia Sanctions*, by Rebecca M. Nelson.

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