POLICY BRIEF
Round-up: US Response to the Russian Invasion of Ukraine
February 24, 2022

The President’s announcement today included some of the most serious sanctions levied against Russia, far exceeding the sanctions imposed on Russia after its annexation of Ukraine in 2014. But they also left room for further action, including sanctions against Putin himself, although those may be difficult to impose given the shadowy nature of Putin’s financial holdings.

The Administration also continued its effort to control the narrative with the scheduling of condemnation motions at the UN. But the President made clear that US troops were to defend NATO countries and not to fight in Ukraine. While that was intended to deter Putin’s more expansionist agenda, it did leave Ukraine vulnerable to the onslaught of Russian troops.

The President also shared that the impact of sanctions may take a while to be fully felt by the Russian economy and foreshadowed that the US and global economy would not be shielded from the effects of the sanctions—an effect that Putin is most likely calculating as the Achilles heel in the unified response to the invasion. China’s role is critical. After the Russian annexation of Ukraine in 2014, China’s trade with Russia continued to grow, deepening the relationship with a series of energy deals. Their bilateral trade flows reached an all-time high last year of $147 billion which included a pipeline deal and they have also cooperated to build their own financial infrastructure to protect against Western interference (more on SWIFT below).

Round-up

President Biden responded to Russia’s invasion of Ukraine with “severe” sanctions coordinated with allies and partners, including commitments by Australia, Canada, New Zealand, the European Union, Japan, and the United Kingdom that they will also take similarly forceful actions to hold Russia accountable.

- “Putin is the aggressor. Putin chose this war. And now he and his country will bear the consequences.”

- The President also announced further troop deployments to Europe: The approximately 7,000 additional U.S. soldiers who will deploy to Germany in response to the Russian invasion of Ukraine will come from the 1st Armored Brigade Combat Team, 3rd Infantry Division at Fort Stewart, Ga., the Pentagon said on Thursday.

- “Our forces are not going to Europe to fight in Ukraine,” the President said. But to defend our NATO allies, which include the Baltic states, if Russia moved beyond Ukraine’s borders. Under Article 5 of the NATO Treaty--an attack on one is an attack on all.
• He warned Americans that they would feel some economic pain from the Russian invasion, but he said there was no question that the United States and its allies needed to respond aggressively to the invasion.

• Interestingly, the President did not answer a question about his interactions with China.

Sanctions:

The United States would cut off Russia’s largest banks and largest companies from the western financial markets:

• **Banks & SOEs:** In addition to the sanctions on two major Russian banks announced on Tuesday and the sanctions concerning activities in the Donetsk and Luhansk areas of Ukraine, President Biden announced major sanctions on Russian banks, state-owned companies, and members of the Russian elite close to President Putin, using his power under Executive Order 14024, issued last April regarding “harmful foreign activities” of Russia. The sanctions President Biden and other global leaders announced today targeted all major Russian banks and state-owned companies. Taken together, the US sanctions now address the top ten Russian financial institutions, including Russia’s two largest banks and their subsidiaries. This includes Sberbank, Russia’s largest financial institution, which holds nearly one-third of the overall Russian banking sector’s assets, and is heavily connected to the global financial system, and is systemically critical to the Russian financial system.

• According to Treasury’s Office of Foreign Assets Control (OFAC), the new sanctions concerning Russian banks will come into force on March 26, 30 days after today’s announcement. In addition, assets held by Russian bank VTB, which holds nearly one-fifth of the overall Russian banking sector’s assets, and three other banks have been frozen, effective immediately, under “full blocking sanctions.” As Treasury noted, “[t]his is one of the largest financial institutions Treasury has ever blocked and sends an unmistakable signal that the United States is following through on its promise of delivering severe economic costs.”

• **New Debt & Equity:** Treasury has also imposed sanctions relating to new debt and equity of 13 major Russian state-owned enterprises and large private financial institutions, also effective March 26, to “imperil Russia’s ability to raise capital key to its acts of aggression.” The firms include enterprises such as Alfa-Bank, Gazprom, Rostelcom, pipeline company Transneft, Sovcomflot, diamond mining company Alrosa, and the Russian Railways. These entities, including companies critical to the Russian economy, have estimated assets of nearly $1.4 trillion.

• **Russian Elites:** A final package of sanctions covers prominent members of the Russian elite close to President Putin: Sergei Ivanov (and his son, Sergei), Nikolai Patrushev (and his son Andrey), Igor Sechin (and his son Ivan), Andrey Puchkov, Yurii Soloviev (and two real estate companies he owns), Galina Ulyutina, and Alexander Vedyakhin. This action cuts them off from the U.S. financial system, freezes any assets they hold in the United States and blocks their travel to the United States.
• **Belarus**: Costs on Belarus for supporting a further invasion of Ukraine by sanctioning 24 Belarusian individuals and entities, including targeting Belarus’ military and financial capabilities by sanctioning two significant Belarusian state-owned banks, nine defense firms, and seven regime-connected official and elites.

• **However, oil & gas get Relief from sanctions.** OFAC has also issued a set of general licenses offering relief from the sanctions in certain areas, notably “payments for energy . . . from production to consumption,” stating that “[t]he sanctions and license package has been constructed to account for the challenges high energy prices pose to average citizens and doesn’t prevent banks from processing payments for them. Overflights of Russian territory by commercial aircraft, “agricultural and medical commodities and the COVID-19 pandemic [sic],” and transactions involving international organizations and entities are exempt from sanctions.

**Export Controls:**

According to the White House, the unprecedented export control measures will cut off more than half of Russia’s high-tech imports, restricting Russia’s access to vital technological inputs, atrophying its industrial base. The impact of these measures will be significantly magnified due to historical multilateral cooperation with a wide range of Allies and partners.

• **Restrict High Tech Exports**: Specifically, the Commerce Department is also imposing new sanctions against Russia, which involve a new Commerce Control List requirement for Russia designed to restrict high-tech exports, including telecommunications and navigation equipment, microelectronics, aviation and avionics equipment and other sensitive technologies. Applications for export of these technologies, with certain limited exceptions, will be denied.

• **Foreign Direct Product Rule**: Commerce is also imposing a new Foreign Direct Product Rule for Russia, a similar rule the Trump Administration use against Huawei, involving “certain U.S. origin software or technology” where the product “is destined to Russia or will be incorporated into or used in the production or development of any part, component, or equipment produced in or destined to Russia.” Many consumer goods, however, would be exempt from the rule.

• **Military End-users**: There will also be a much stricter rule for any goods that would be designated for military end-users (the definition of which is also being expanded for Russia). The foreign direct product rule is similar in its working to that adopted for telecommunications equipment from Chinese manufacturer Huawei in 2020. The White House stated that “[t]hese severe and sustained controls will cut off Russia’s access to cutting edge technology.”

**Why wasn’t SWIFT targeted?** In the runup to the invasion, there had been much speculation that the President, with our allies, would move to block Russian access to SWIFT. SWIFT sanctions were not included today, although the option remains on the table.

• **SWIFT**, the Society for Worldwide Interbank Financial Telecommunication SCRL, legally a Belgian cooperative society, which began in 1973 to assist secure international financial transactions among participating banks and financial institutions. Formally under the oversight of the
National Bank of Belgium, the group also works closely with the US Federal Reserve, European Central Bank, Bank of England, and other major central banks. One potential sanction against Russia would be to cut off all access to SWIFT for Russian financial institutions. However, such a move would pose many challenges, and President Biden and the G-7 decided against this, at least for now.

- **Exceeds Impact**: In his remarks today, President Biden said the “significant sanctions,” including against all major Russian banks and state-owned companies, were “of equal consequence” and “exceed” the impact as formally cutting Russia off from SWIFT.

- **EU Division**: There is division within the EU, which President Biden mentioned today in his press conference, over whether to cut off Russia fully from SWIFT, rather than targeting specific banks. Moving without unanimity would defeat the purpose of the sanction.

- **Alternatives to SWIFT**: A broader concern is that alternatives to SWIFT, are developing— and a broad sanction might encourage them. Both China and Russia maintain alternatives to SWIFT, although they appeal mostly to domestic institutions, and remain small. China’s system, though now has **at least 613 foreign banks** participating and might be poised for further growth if there is a perceived threat that access to SWIFT can be restricted. China launched the Cross-border Interbank Payment System (CIPS) in 2015, an independent clearing system with the RMB as the quote currency. Similarly, Russia has been developing its own financial messaging System for Transfer of Financial Messages (SPFS), since its 2014 incursion into Ukraine and annexation of Crimea. Russia and China have now agreed to develop shared financial structures to deepen economic ties and provide an independent financial structure to service trade operations between Russia and China in a way that will not be affected by pressure of the US and third countries.

- **Weakening Use of Dollar/Encouraging Cryptocurrencies**: Third, a related issue is that any move away from SWIFT raises dangers of the “dedollarization” of the global economy and threaten the dollar’s status as a global reserve currency. This trend is particularly important for oil markets. Already in 2020, yuan futures contracts for oil traded on the Shanghai exchange represented **10.5% of the volume** of global oil futures contracts. Russia’s Gazprom **settles certain gas trades** in China in yuan. Russia could also potentially circumvent the impact of being cut out of SWIFT by turning to the global market for cryptocurrencies and other digital assets, which do not track their customers nearly as well as banks.

- While the sanction of blocking Russian access to SWIFT remains on the table, these factors show the complexity of any move to do so.

**UN, Macron, Boards of Russian Companies**

- **Security Council**: The United Nations Security Council plans to vote Friday on a resolution condemning Russia’s invasion of Ukraine and calling for an immediate and unconditional withdrawal of its troops, according to a senior U.S. administration official.

- The resolution has wide support, diplomats have said, but it was not clear whether China would support or oppose the measure. China could also veto the resolution, or abstain.
• Russia, a permanent member of the council with veto power, was expected to veto it.

• The U.N. General Assembly was also expected to vote on a resolution condemning Russia’s aggression next week, the U.S. official said. The General Assembly resolutions are not legally binding.

• President Emmanuel Macron of France called President Vladimir V. Putin of Russia, the Kremlin says. The two had “a serious and frank exchange” about Ukraine, and Mr. Putin “gave an exhaustive explanation of the reasons and circumstances” surrounding the invasion, according to a Kremlin statement. Interestingly, it was Putin’s fourth exchange of the day with a foreign leader: He also met with the prime minister of Pakistan in Moscow and spoke by phone with the leaders of Iran and India.

• Defections from Russian Company’s Boards: A former Austrian chancellor and ex-prime ministers of Italy and Finland were among the officials who quit their positions on the boards of leading Russian companies on Thursday in protest over Russia’s invasion of Ukraine. But Germany’s former chancellor, Gerhard Schröder, was not among them.