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Exploring the Visegrád-Russia Connection: Understanding the Political and Economic Ramifications of Sanction Policies Four Years Later (Essay 6: Policy Recommendations)

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Economic Ramifications of Sanction Policies Four Years Later

Essay 6: Policy Recommendations

2018

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Introduction

The 2014 actions of Russia in Ukrainian Crimea, Donetsk, and Luhansk represented the first forcible change of European borders since the end of World War II. An unacceptable breach of international law, multitudes of Western nations enacted economic and political sanctions against the Russian Federation for their perceived role in Ukraine. Shortly thereafter, Russia responded with their own set of counter-sanctions. The cumulative aim of this work has been to analyze the repercussions of these sanctions and counter-sanctions for the Czech, Hungarian, Polish, and Slovakian economies since 2014. Having explored the sector-specific effects of sanction policies for each V4 country on a more granular level, the bigger picture still has yet to be painted. In short, what is the overall significance of the previous essays and what do we (policymakers) do about it?

The aim of this essay, the sixth and final, is to answer this very question.

This paper will be split into three core parts: 1) a summary and contextualization of the findings of the previous five papers, 2) an update on the current diplomatic relationship between the EU, U.S., and Russia since 2014, and 3) a forward-looking 11-point policy recommendation.

More specifically, for the third, and most important section of this essay, the twelve recommendations will be split into four topical categories: (1) Foreign Policy, (2) Energy Policy, (3) Governance Policy, and (4) Agricultural Policy. Via presenting the findings and application of this work, I aim to provide V4 decision-makers with actionable steps to better manage their current and future relationship with Russia.

Summary of Previous Research

1. Introduction

EU sanctions can be categorized into five distinct categories ⁽¹⁾:

- 1) Diplomatic Measures (i.e. suspension of Russian voting rights in supranational organizations)
- 2) Individual Restrictive Measures (asset freezes & travel bans)
- 3) Restrictions on Economic Relations with Crimea
- 4) Economic & Sectoral Sanctions
- 5) Restrictions on Economic Cooperation (e.g. removal of eligibility for EU development funds)

As the nature of this work is primarily economic, and secondarily political, the previous works focused on individual restrictive measures and economic and sectoral sanctions. Economic and sectoral sanctions targeted three Russian sectors connected to the Kremlin and deemed strategically important to the Russian economy. These three sectors were the energy, financial services, and defense industries. Additionally, the trade of certain key products to Russia was restricted ⁽²⁾.

Russian counter-sanctions are similar, but only fall into two categories:

- 1) Individual Asset Freezes & Travel Bans
- 2) Trade Restrictions

Of these two categories, trade restrictions are the more notable piece of Russian sanction policy and the category primarily reviewed for this work. Trade restrictions specifically target the agricultural sector of European and other Western countries ⁽³⁾.

¹ Council on Foreign Relations: What are Economic Sanctions?

² European Parliament Research Service, and Martin Russell: Sanctions over Ukraine: Impact on Russia

³ European Parliament Research Service, and Martin Russell: Sanctions over Ukraine: Impact on Russia

Structurally, I divided my analysis of the effects of EU and Russian sanction policies on V4 economies into five pieces. The first essay is primarily a statistical piece, looking for statistically significant changes in V4-Russian exports resulting from the implementation of sanctions and counter-sanctions. The following four are categorically sector-specific pieces, looking at the energy, financial services, defense, and agriculture sectors in turn.

2. Essay 1: Econometric Analyses

EU and Russian export restrictions were first introduced in July and August 2014, respectively. EU restrictions disallowed the European export of pipeline construction materials, dual-use goods, and other strategic goods to Russia. EU sanctions restrict the trade of products within eight HS codes (7304, 7305, 7306, 8207, 8413, 8430, 8705, 8905) ⁽⁴⁾. On the other side, Russian counter-sanctions created a de facto embargo on European agricultural goods. Russian counter-sanctions restricted the import of goods categorized by eight different HS codes (2, 3, 4, 7, 8, 16, 19, 21) ⁽⁵⁾. V4 nations expressed strong concerns about the possible harm these policies could have for their national economies ⁽⁶⁾.

In order to study the initial validity of V4 concerns, I made use of an OLS linear regression model with Newey-West estimators to determine whether sanction policies have resulted in statistically significant changes in V4 exports to Russia for these sanctioned and counter-sanctioned product groups. To perform this research, I collected data from the United Nations Comtrade database from January 2010 – July 2017, ultimately resulting in 64 panel data samples, divided evenly between V4 nations (16 per country). All data was denominated in US\$. My research question asked: **Do 50% or more of export restricted product groups experience a statistically significant change in US\$ trade value after the implementation of the 2014 sanctions?** My null hypothesis stated: **50% or more of export restricted**

⁴ Crozet, Matthieu, and Julian Hinz: Friendly Fire: the Trade Impact of the Russia Sanctions and Counter-Sanctions

⁵ Crozet, Matthieu, and Julian Hinz: Friendly Fire: the Trade Impact of the Russia Sanctions and Counter-Sanctions

⁶ Website of the Hungarian Government: www.kormany.hu/en/ministry-of-foreign-affairs-and-trade/news/hungary-lost-usd-6-5-billion-due-to-sanctions-against-russia

product groups experience do not experience a statistically significant change in US\$ trade value after the implementation of the 2014 sanctions.

My econometric model:

$$Y_{Russian\ Exports_{i,t,h}} = \beta_0 + \beta_1 German\ Exports_{i,t,h} + \beta_2 D_{Sanctions_t} + \epsilon_{i,t,h}$$

My results did not allow me to reject my null hypothesis for Czechia and Hungary. At 21.4% for both Czechia and Hungary, less than 50% of affected testable datasets experienced a statistically significant change in US\$ trade value after the implementation of the 2014 sanctions. I was able to reject the null hypothesis for Poland and Slovakia though. For Poland and Slovakia, at 64.3% and 66.7% respectively, more than 50% of affected testable datasets experienced a statistically significant change in US\$ trade value after the implementation of the 2014 sanctions. These mixed results made interpretation of my outcomes difficult without further context. In reality, EU export restrictions target a very small range of the EU-Russia export mix. Russian restrictions are much broader, and initially did result in difficulties for V4 agricultural producers. However, as outlined in *Essay 5 – Agriculture*, V4 agricultural markets have experienced substantial success in finding new markets and trade partners to help offset the loss of the Russian market (⁷). These factors would indicate that sanctions-related shocks did not cause out-sized and long-term harm to the Czech, Hungarian, Polish, and Slovakian markets. Still, further qualitative analyses of each affected sector was needed to determine the true effects (and costs) of EU and Russian sanction policies for V4 economies.

3. Essay 2: Energy

The energy industry is the main driver of economic growth and income in Russia. EU sanctions target three Russian energy firms – Rosneft, Gazprom Neft, and Transneft (⁸). Each of these firms is primarily

⁷ Wyciszkievicz, Ernest: The Impact of Russian Sanctions on the Polish Agri-Food Sector

⁸ Risk Advisory: news.riskadvisory.net/sanctioned-individuals/

focused on the petroleum industry, not the natural gas industry⁽⁹⁾. However, I investigated V4 import dependencies, market dynamics, and price structures of both petroleum and natural gas. For Czechia, Hungary, Poland, and Slovakia, sanctions-related risks to petroleum markets are negligible. This is due to the variety of sourcing methods available for obtaining crude oil and refined products and the globalized nature of oil prices. For natural gas, the opposite is true. Most natural gas is transported via pipeline, creating significant difficulties for supply diversification. Additionally, Russia is the #1 supplier of natural gas to V4 nations, by a wide margin⁽¹⁰⁾. This presents a substantial energy security risk.

Recognizing the political and economic benefits of a strengthened natural gas hegemony, Russia has supported various pipeline projects (e.g. Nord Stream II) to further their market power⁽¹¹⁾. Conversely, the EU and V4 have both undertaken initiatives to promote greater supplier diversification away from Russia. The Three Seas Initiative is the primary institutional example of this, which aims to create a North-South transportation and energy corridor through Central, Eastern, and Southern Europe⁽¹²⁾. Additionally, the EU and V4 are supporting the development of liquefied natural gas (LNG) markets and the creation of alternative pipeline routes to source Azerbaijani gas via the Trans-Anatolian and Trans-Adriatic pipelines⁽¹³⁾. With both sides, Russian and European, struggling against one another for greater market power, the future development of the energy industry poses the greatest risk *and* opportunity for V4 nations.

4. Essay 3: Financial Services & Governance

Shifting from the energy sector to the financial services sector, EU sanctions target five key Russia banks – Bank Rossiya, Gazprombank, Sberbank, Vnesheconombank, and VTB Bank⁽¹⁴⁾. Combined,

⁹ Rapoza, Kenneth: Here's How Europe's Russian Sanctions Differ From Washington's

¹⁰ Observatory of Economic Complexity: <https://atlas.media.mit.edu/en/>

¹¹ Teffer, Peter: Tusk: Nord Stream II Doesn't Help

¹² Reza, Zainab: What Is The Three Seas Initiative?

¹³ Trans Adriatic Pipeline: www.tap-ag.com/the-pipeline/the-big-picture/southern-gas-corridor

¹⁴ Risk Advisory: news.riskadvisory.net/sanctioned-individuals/

these banks control over 50% of the Russian banking industry⁽¹⁵⁾. The inability of these five Russian banks to raise long-term debt in Western capital markets has proven to be the most effective use of EU and U.S. sanctions to date⁽¹⁶⁾. Of sanctioned Russian banks, only Sberbank is present in the V4, in Czechia, Hungary, and Slovakia. Sberbank does not possess a significant market presence in any of the three countries though⁽¹⁷⁾. This limited exposure to sanctioned Russian banking has insulated V4 economies from any detrimental direct repercussions of EU sanctions. However, indirectly, at the time sanctions were announced in 2014, a number of European banks had loaned significant sums to Russian firms. This represented a substantial risk, albeit a less direct one. Italian bank UniCredit and Hungarian bank OTP each possessed exposure to the Russian market numbering in the billions of euros⁽¹⁸⁾. While some of these banks were forced to write off large quantities of their loans to Russian companies, ultimately the access of European banks to Western capital markets allowed them to weather any short-term effects. Four years later, exposure to the Russian economy is minimal for V4 banks, and does not constitute any systemic risk.

This essay also examined corporate governance in the V4. Numerous Russian firms have attempted to enter V4 markets several times in the past ten years, although with limited success. For Hungary, Surgutneftegaz, Gazprom, Lukoil, and Sberbank have all attempted to obtain large ownership positions in strategic industries⁽¹⁹⁾. The Hungarian government has done well to foil these efforts. Similar stories exist in each V4 country, with Russian companies so far unable to infiltrate segments and possess any sort of significant market share. One notable exception does exist though, the Paks II nuclear power plant in southeastern Hungary. A lack of transparency, combined with the economic potential of an operational

¹⁵ Winkler, John, et al.: A Chessboard Strategy for Russia's Banking Market

¹⁶ European Parliament Research Service, and Martin Russell: Sanctions over Ukraine: Impact on Russia

¹⁷ Sberbank: www.sberbank.ru/en/about/global_business/subsidiary_banks/ce_en/se_ag_en

¹⁸ Reuters Staff: European Banks' Exposure to Russia

¹⁹ Csaba Weiner: Tracking Russian FDI in Hungary

Paks II, could provide Russia (via nuclear energy company Rosatom) with a worrisome amount of influence in the Hungarian energy market ⁽²⁰⁾.

5. Essay 4: Defense & Dual-Use

The Russian defense and dual-use industry, a key supporter of rebel groups in Eastern Ukraine, faces substantial sanctions as well. Almaz-Antey, Kalashnikov Concern, United Aircraft Corporation, Uralvagonzavod, the subsidiaries of these companies, and a number of other, smaller firms all face capital restrictions and the inability to collaborate with Western firms ⁽²¹⁾. While Russia is the second largest arms dealer globally, since losing access to Western markets, these companies have focused on expanding to Asian markets ⁽²²⁾. Currently, each V4 nation possesses relatively small defense and dual-use industries, and has historically since the end of the Cold War. Regarding imports, V4 arms imports from Russia has not reached even 1% since 2010 ⁽²³⁾. Czechia, Hungary, Poland, and Slovakia all are full NATO members, and therefore look towards the U.S., France, Great Britain, and other Western nations for their military and defense needs. Economically, any detrimental effects of EU sanctions for V4 defense and dual-use markets are minimal due to their respective size and their lack of dependency on Russian manufacturers.

6. Essay 5: Agriculture

Russian counter-sanctions, enacted in response to EU and Western sanction policy, targeted the agricultural and agro-food industry ⁽²⁴⁾,⁽²⁵⁾. Overnight, a de facto embargo was created on EU and V4 agro-food products. Suddenly, V4 and EU producers lost the Russian market, previously their largest

²⁰ Csaba Weiner: Tracking Russian FDI in Hungary

²¹ Risk Advisory: news.riskadvisory.net/sanctioned-individuals/

²² Tweed, David: Russia's Rostec Banks on Asia to Join Defense Elite

²³ SIPRI: armstrade.sipri.org/armstrade/page/values.php

²⁴ Food and Agricultural Organization of the United Nations: Russia's Restrictions on Imports of Agricultural and Food Products: An Initial Assessment

²⁵ Lazarová, Daniela: Agriculture Ministry: Czech Exporters May Lose Hundreds of Millions of Crowns Due to Russian Food Embargo

extra-EU agricultural partner ⁽²⁶⁾. Russian agriculture benefited greatly from the loss of competition, growing quickly to become the largest grain exporter in the world ⁽²⁷⁾. Additionally, Russian production of fruits and meats increased substantially, allowing them to become mostly self-sufficient ⁽²⁸⁾. However, this new-found self-sufficiency has magnified structural weaknesses and led to decreased consumption and a lessened ability to handle poor harvests ⁽²⁹⁾. For V4 producers, the EU, via aid packages aimed at stabilizing prices and compensating farmers for initial losses, helped offset short-term losses resulting from losing Russian customers ⁽³⁰⁾. Also, on the EU, national, and local level, there have been notable efforts to diversify the customer base to include new South and North American, Northern African, and Asian markets ^{(31),(32)}. This has been accomplished with great success. Four years later, counter-sanctions-related losses have been offset by the growth in these new markets ⁽³³⁾. Total EU agro-food trade has only grown since 2014, aided by the diversification efforts spurred by Russian counter-sanctions ⁽³⁴⁾. Despite Russian efforts, counter-sanctions have actually strengthened V4 agricultural markets and producers fundamentally and monetarily.

²⁶ European Commission, Agriculture and Rural Development: Analysis of the EU Fruit and Vegetables Sector, EU Production and Exports to Russia (2011-2013)

²⁷ Medetsky, Anatoly: How an Oil Giant (Russia) Came to Dominate Wheat

²⁸ FreshPlaza: www.freshplaza.com/article/192138/Russia-expects-fruit-production-to-grow-by-nearly-14-percent-in-2018

²⁹ Sheftalovich, Zoya, and Christian Oliver: Russia's Boom (Farming) Economy

³⁰ European Commission, Agriculture and Rural Development: Russian Import Ban on Agricultural Products

³¹ Wyciskiewicz, Ernest: The Impact of Russian Sanctions on the Polish Agri-Food Sector

³² European Commission, Agriculture and Rural Development: Monitoring EU Agri-Food Trade: Development until April 2017

³³ European Commission, Agriculture and Rural Development: EU Responses to the Russian Import Ban: Questions and Answers

³⁴ European Commission, Agriculture and Rural Development: Russian Import Ban on Agricultural Products

Current Updates

1. Introduction

Since 2014, when Western sanction policies against Russia first began, there have been many notable political developments that are deserving of discussion before we move to my policy recommendations. These updates will be split into four distinct segments, divided by their primary region of importance.

2. V4

Within the V4, Hungary has seen the most critical developments in their relationship with Russia. Since 2014, when sanctions began, Hungarian Prime Minister Viktor Orban and Russian Prime Minister Vladimir Putin have met numerous times in both Budapest and Moscow. For Hungary, Russia's involvement in Ukraine marked a critical point in Hungarian-Russian relations, with the relationship strengthening, as opposed to weakening, as it has for almost every other EU country. Orban has expressed vocal admiration for Putin's illiberal regime, even going so far as to question the value of economic sanctions against Russia ⁽³⁵⁾. In a February 2017 meeting between the two leaders, Orban stated that, "Non-economic problems cannot be treated with economic measures... it is hard to imagine a successful Hungary without establishing open, vigorous, and fruitful economic and trade relations with one of the biggest players in the global economy" ⁽³⁶⁾. Despite these worrisome statements, to date, Hungary has not voted against continuing sanction policies. Critically, this can be perceived as a Hungarian attempt at 'realpolitik,' to balance the benefits of stronger ties with a major economic power with minimal risks due to Hungary's geographical distance from Russia ⁽³⁷⁾. Despite the "cleverness" of this approach, the warming Hungarian-Russian relationship does not bode well for greater EU unity on this topic. This will continued to be monitored.

³⁵ Kalan, Dariusz: Hungary in the Grip of a Bear Hug

³⁶ About Hungary: abouthungary.hu/the-spokesmans-blog-zoltan-kovacs/pm-orban-on-russia-and-eu-sanctions-we-cannot-treat-non-economic-problems-with-economic-measures/

³⁷ Kalan, Dariusz: Hungary in the Grip of a Bear Hug

Poland has taken the opposite approach to relations with Russia. Currently, the Polish military is in the midst of a modernization process to increase their military capabilities. Fundamentally, this process is to be perceived as a deterrent against further Russian aggression in the region. Poland has expressed great concern with NATO capabilities in their specific region. However, if the EU and NATO do not provide further confidence to Poland that their security will be ensured in the region, Polish insecurity will only increase, and the cohesion of NATO countries in Central Eastern Europe will be further tested ⁽³⁸⁾.

Both Hungary and Poland are currently under increased scrutiny from the EU due to the rise of Polish and Hungarian populism and illiberalism ^{(39),(40)}. Czechia and Slovakia are also experiencing similar domestic leanings at this time, although not to the extent of the aforementioned countries ^{(41),(42)}. Similar to Hungary, Czechia and Slovakia have both expressed concerns about the long-term effect of sanctions and questioned their effectiveness in Ukraine ⁽⁴³⁾. Whether in their domestic political landscape, or within their foreign policy statements, there is a growing wedge between the EU's eastern flank of V4 countries and the other nations of the bloc.

3. Ukraine

Since the initial unrest in Ukraine, Russia has maintained their position that Crimea is a legally annexed region and has continued to quietly support the rebel groups in the Donbass region ⁽⁴⁴⁾. Since annexation, only six nations have officially recognized Crimea as a legal part of Russia – Cuba, Nicaragua, Venezuela, Syria, Afghanistan, and North Korea ⁽⁴⁵⁾. There have been no major changes in the situation in Ukraine, despite the efforts of the EU, U.S., and other nations to resolve the situation via the Minsk I and II protocols. Despite the European Council offering the removal of economic sanctions in

³⁸ Buras, Piotr, and Adam Balcer: An Unpredictable Russia: the Impact on Poland

³⁹ Bayer, Lili: Hungary and Poland to EU: Don't Shut Us Out

⁴⁰ Smyth, Patrick: Poland and Hungary Could Threaten the EU More than Brexit Does

⁴¹ Tait, Robert: Far Right to Gather in Prague as Fears Grow of Rising Czech Populism

⁴² Deutsche Welle: www.dw.com/en/inside-europe-the-appeal-of-populism-in-slovakia/av-40151490

⁴³ European Parliament Research Service, and Martin Russell: Sanctions over Ukraine: Impact on Russia

⁴⁴ European Parliament Research Service, and Martin Russell: Sanctions over Ukraine: Impact on Russia

⁴⁵ Bender, Jeremy: These Are the 6 Countries on Board with Russia's Illegal Annexation of Crimea

return for the full implementation of the Minsk agreements, neither protocol has been fully enacted. Thus, the failure to reach an agreement has allowed unrest to continue in the region. A silver lining does exist though – violence and skirmishes have decreased and Russia has not supported further territorial progress by rebels nor attempted to annex the land currently held by rebels (⁴⁶).

4. Russia

Within Russia specifically, the effects of Western sanctions and Russia's own counter-sanctions on their domestic economy are mixed. For a further review on this, see *Summary of Previous Research* and the preceding essays. The Russian government has attempted to spin the effects of EU sanctions to their own benefit by propagating four primary myths.

The first myth being communicated is that sanctions are too expensive for Western businesses and will be removed soon. Many Russian state-run media outlets cite costs estimated by the Austrian Institute of Economic Research (WIFO) which place a price tag of approximately €100 billion on EU economies for maintaining sanction policies (⁴⁷). While I, and numerous other researchers disagree with these figures, and estimate them to be much lower, such a cost would actually indicate a more negative reality for Russia. If sanctions cost EU economies €100 billion, and the EU has decided to maintain this foreign policy stance, this would communicate the EU feels so strongly about Russian intervention in Ukraine as to justify this exorbitant cost (⁴⁸).

The second myth spread within Russia is that sanctions have a minimal effect on the Russian economy (⁴⁹). Based upon economic theory, this is difficult to justify. If sanctions strongly effect EU commerce, in a globalized world, how could they not have some sort of cost for Russian business too? Additionally, Russian leaders (i.e. Russian Finance Minister Aleksey Kudrin) have admitted to sanctions

⁴⁶ European Parliament Research Service, and Martin Russell: Sanctions over Ukraine: Impact on Russia

⁴⁷ Buklemishev, Oleg: Myths and Realities of Sanctions in Russia

⁴⁸ Buklemishev, Oleg: Myths and Realities of Sanctions in Russia

⁴⁹ Buklemishev, Oleg: Myths and Realities of Sanctions in Russia

against the Russian banking sector have proven difficult to overcome ⁽⁵⁰⁾. Despite efforts to switch to East Asian capital markets, Hong Kong, Shanghai, and other financial centers simply cannot be substituted for the funding opportunities provided by London and New York ⁽⁵¹⁾.

A third myth propagated by the Russian government states that the Russian economy has become immune to economic sanctions over time ⁽⁵²⁾. Again, this is simply not true. While the Russian agricultural economy has adapted and grown, Russia's attempt at increased self-sufficiency only highlights structural weaknesses within the sector. Additionally, any sort of smuggling efforts will involve increased legal risks and transport time, both of which increase costs ⁽⁵³⁾. Sanctioned Russian banks, limited to short-term debt products now, also face increased risk-related costs too.

Fourth, and finally, Russia has attempted to sell the idea that sanctions help their national economy ⁽⁵⁴⁾. While this may be true in some ways, via reduced competition, this idea cannot be true holistically. For healthy growth and diversification, Russia must rely on external Western trading partners ⁽⁵⁵⁾. Again, as the Russian economy is already over-reliant on energy commodity prices and a strong ruble for growth, sanctions and counter-sanctions only increase the challenges for further development.

For the foreseeable future, it seems that sanctions will remain in place. Similarly, the Russian government will continue to spread misinformation within their national borders for their own benefit. While these Russian efforts are based more in propaganda than in truth, as long as the current Russian administration remains in power, changes to sanction and counter-sanction policies appears unlikely without different approaches from both sides.

⁵⁰ European Parliament Research Service, and Martin Russell: Sanctions over Ukraine: Impact on Russia

⁵¹ Buklemishev, Oleg: Myths and Realities of Sanctions in Russia

⁵² Buklemishev, Oleg: Myths and Realities of Sanctions in Russia

⁵³ Buklemishev, Oleg: Myths and Realities of Sanctions in Russia

⁵⁴ Buklemishev, Oleg: Myths and Realities of Sanctions in Russia

⁵⁵ Buklemishev, Oleg: Myths and Realities of Sanctions in Russia

5. Trans-Atlantic

Having looked at updates for V4 countries, Ukraine, and Russia, we turn now to the Trans-Atlantic relationships between the United States, the EU, and Russia. The relationships between these three groups have changed drastically since the introduction of the original Western sanctions in 2014. The implementation of United States President Donald Trump's "America First" policies in 2017 represented the first of many seismic shifts between the three. In order to protect American industries, and in retaliation for perceived Russian influence in the 2016 U.S. presidential election, the United States imposed additional sanctions upon Russia (⁵⁶). Instead of supporting these American policies, the EU expressed strong displeasure with these actions. The EU worries that due to the structure of these new sanctions, EU business could be negatively affected. The German energy industry has been particularly vocal on this front, due to the possible ramifications for the Nord Stream II pipeline. Additionally, the German Foreign Ministry even went so far as to suggest that the motivations for the structure of new American sanctions was purely commercial (to promote the attractiveness of American LNG in the region), and not so much diplomatic. The French government also asked about the legality of such measures (⁵⁷). Regardless of the specifics, a rift can be seen opening between the EU and the U.S. for how to handle an increasingly aggressive Russia. This topic is still developing.

More recently, in 2018, former Russian spy Sergei Skripal and his daughter, who live in the U.K., were found to have been poisoned by a military-grade nerve agent. While the poison left both critically ill, it has not proven fatal thus far. They are both still being treated currently (⁵⁸). The resulting British investigation into the causes and culprits found that Russia was most likely behind this attempted assassination. The British diplomatic response was swift and extremely harsh – the expulsion of 23 Russian diplomats from the U.K. These 23 diplomats were accused of espionage. Russia countered with

⁵⁶ Nougayrède, Natalie: As the US and EU Square off over Russia Sanctions, Only Putin Can Win

⁵⁷ Nougayrède, Natalie: As the US and EU Square off over Russia Sanctions, Only Putin Can Win

⁵⁸ Petkova, Mariya: US, EU Expel More than 100 Russian Diplomats over Skripal Case

their expulsion of 23 British diplomats (⁵⁹). Simultaneously, British Prime Minister Theresa May asked for coordinated and multilateral actions to be taken by British allies in order to show Western unity and validate the seriousness of such actions on U.K. soil. Many of Britain's allies heeded May's call. The United States closed the Russian consulate in Seattle and expelled numerous Russian diplomats (⁶⁰). 17 nations of the EU also heeded May, expelling 34 Russian diplomats in total. Expelling countries included Croatia, Czechia, Denmark, Estonia, Finland, France, Germany, Hungary, Italy, Ireland, Latvia, Lithuania, the Netherlands, Poland, Romania, Spain, and Sweden. Also, non-EU European nations Albania, Macedonia, Norway, and Ukraine followed suit. Latvia, Lithuania, and Poland even went so far as to recall their Ambassadors from Moscow, as did EU for the head of their permanent delegation (⁶¹). When the dust finally settled, overall more than 100 Russian diplomats had been expelled from their host nation in response to the Skripal poisoning (⁶²).

Between the introduction of new American sanctions related to the 2016 American presidential elections and the diplomatic responses to the Skripal poisoning, Trans-Atlantic-Russian relations have not reached such a depth since the Cold War. While there is some divergence between American and European tactics for handling Russia, the unity shown related to the Skripal poisoning is at least promising. Overall though, the escalation of tension between Russia and Western nations represents a severe and worrisome challenge for the world.

6. Conclusions

In summary, since the implementation of the original 2014 Western sanction policies, the majority of the Western world has experienced an extreme deterioration in their relationship with Russia. While some V4 nations seem open-minded to bettering their relationship with Russia, to date, this has yet to manifest in action, with the exception of Hungary's Paks II nuclear power plant. The situation in the Crimea and

⁵⁹ Gye, Hugo: 23 Russian Spies Kicked out of Britain by Theresa May Land Back in Moscow

⁶⁰ Petkova, Mariya: US, EU Expel More than 100 Russian Diplomats over Skripal Case

⁶¹ Petkova, Mariya: US, EU Expel More than 100 Russian Diplomats over Skripal Case

⁶² Herszenhorn, David M.: US, Europeans and Allies Kick out More than 100 Russian Diplomats

Donbass regions of Ukraine has seen little real change. The Russian government began an information campaign to convince the Russian populace of the irrelevance of the effects of Western sanction efforts. However, there is little statistical backing to support the claims propagated by Russian authorities. American and European authorities in the last two years have increased their efforts to punish Russia for perceived attempts to influence electoral processes and espionage (i.e. the poisoning of Sergei Skripal).

Without getting too broad, each of these developments represents the worsening of ties with Russia. With a seeming stalemate in Ukraine, the combative Trans-Atlantic-Russian relationship has expanded to include other regions of the globe now – mainly Syria and the greater Middle East. As tensions rise globally between nations, the importance of dialogue and new policy solutions has never been greater. With an ultimate goal of de-escalation with Russia, we move to the list of my policy recommendations for bettering EU and V4 relations with Russia, even if such suggestions may only result in incremental improvement. Based upon the previous two years of research, I have developed a list of 11 policy recommendations which I believe could prove beneficial for EU and V4 leaders to consider. First we will consider 3 foreign policy recommendations, then 5 energy policy recommendations, next a governance policy recommendation, before finishing with 2 agricultural policy recommendations.

Policy Recommendations – Foreign Policy

1) Maintain Original Sanctions Policies Against Russia

First, the continuation of sanction policies against Russia is of the utmost importance. The use of economic sanctions as a foreign policy tool is the strongest non-military option available for nations, and should be continually used against nations who demonstrate extreme disregard for international law. Russia fits these requirements due to their actions in Ukraine. Russian involvement in Ukraine in 2014 constituted the first use of force to change European borders since the end of WWII. Simply, such a violation of Ukrainian national sovereignty cannot stand. Sanctions, as decided in 2014 by EU leadership, still represent the best method to express displeasure with the Russian government and increase the respective costs of their course of action in Ukraine. An escalated response involving direct military action is still not appropriate or warranted. Also, a prospective conflict with a nuclear power would simply not justify the costs.

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Despite the usefulness of economic sanctions, they are not without their flaws. Russia is a difficult country to effectively sanction due to their size and level of connectedness to the global economy. Russia has and may still continue to realign the supply chains of sanctioned companies to avoid the legal structure of sanctions⁽⁶³⁾. This reduces the long-term effectiveness of economic sanctions. Despite the questionable viability of sanctions as a long-term solution, economic sanctions do present certain strengths and weaknesses for this particular situation.

In terms of advantages, economic sanctions against Russia have proven to raise costs for sanctioned individuals and entities. For example, sanctioned individuals Arkady Rotenberg and Gennady Timchenko were especially affected. Rotenberg was frozen out of €30 million of assets in Europe, while Timchenko was forced to sell his stake in commodity trading firm Gunvor⁽⁶⁴⁾. Sanctions have inflamed an already

⁶³ Nossel, Suzanne: It's Time to Kill the Feel-Good Myth of Sanctions

⁶⁴ European Parliament Research Service, and Martin Russell: Sanctions over Ukraine: Impact on Russia

structurally fragile Russian banking sector as well. Shortly after EU sanctions were announced, in one single week in December 2014, Russian customers withdrew 1.3 trillion rubles (US \$22 billion) from sanctioned entity Sberbank. Unable to access further funding, due to the lack of Russian access to Western capital markets, Russia's largest bank faced a major liquidity crisis. To avoid a systematic failure of the national financial system, the Russian government designed a 1 trillion ruble (US \$17 billion) bailout scheme for the struggling bank and sector. The banking sector has continued to struggle since 2014, with three more banks needing bailouts in 2017 ⁽⁶⁵⁾. While the Russia banking sector has not struggled solely due to sanctions, sanctions have definitively contributed to their notable challenges ⁽⁶⁶⁾. The energy sector has also struggled too, with Rosneft (and sanctioned CEO Igor Sechin) facing sanctions. Arctic exploration with American energy companies, like ExxonMobil, has been halted, while other forms of collaboration have increasingly been deterred for fear of fines ⁽⁶⁷⁾. FDI inflows from non-sanctioning countries, usually Asian countries, has not been able to replace the previous amount of Western flows. Similarly, Asian investors have not had a desire to fill the gap in the Russian market too, as Russia is simply not a fundamentally attractive place to invest at this moment ⁽⁶⁸⁾.

In terms of disadvantages, there is some cost affiliated with EU sanctions, and the resulting counter-sanctions, for sanctioning countries. This presents a risk to EU unity. While larger EU nations (e.g. France and Germany) and EU countries sharing a border with Russia (Poland and the Baltic nations) may be willing to accept these costs, other, smaller countries may find this unpalatable. As mentioned earlier, Hungary, Czechia, Slovakia have questioned the costs of sanctions and the long-term effectiveness of this policy. Further challenges have been made by Italy, Greece, and Cyprus ⁽⁶⁹⁾.

Despite these challenges, the general public perception of sanctions remains either positive or relatively neutral. For example, a Polish polling group, the Public Opinion Research Center (CBOS),

⁶⁵ European Parliament Research Service, and Martin Russell: Sanctions over Ukraine: Impact on Russia

⁶⁶ European Parliament Research Service, and Martin Russell: Sanctions over Ukraine: Impact on Russia

⁶⁷ European Parliament Research Service, and Martin Russell: Sanctions over Ukraine: Impact on Russia

⁶⁸ European Parliament Research Service, and Martin Russell: Sanctions over Ukraine: Impact on Russia

⁶⁹ European Parliament Research Service, and Martin Russell: Sanctions over Ukraine: Impact on Russia

found that 64% and 68% of polled Poles supported sanctions in 2014 and 2015, respectively (⁷⁰). While Poland is notoriously hawkish towards Russia, most nations have demonstrated lesser, but still similar feelings about sanction policy. As time passes, it remains important to communicate to EU citizens the “why” of sanctions. In doing this, the populace is more likely to understand and support sanctions – therefore, weakening the threats to EU unity.

Without any significant changes in Ukraine, economic sanctions remain the best option available for EU leadership, even in spite of the mixed results. I advocate for the continuation of sanctions this year, in 2018, and beyond, barring some major change in Crimea or Donbass. The inherent “smart” design of sanctions, targeting only the Russian oligarch and decision-making class, should remain the default system for economic sanctions. Maintaining “smart sanctions” design will minimize self-inflicted losses for the EU and unintended harm for the general Russian citizenry.

2) Encourage Honest and Continuous Dialogue with Russia & Redevelop Minsk Agreements

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Next, while maintaining sanction policies is of primary importance, EU leaders must not be content to simply maintain a penal stance towards Russia, and in doing so disrespect Russia. By encouraging Russia to come to the bargaining table, EU leaders respect the dignity of Russia. Through continuing efforts to engage with Russia in respectful and tactful ways, the possibility of finding a solution to the unrest in Ukraine does exist. While the probability of this may remain small in reality, a small chance at peace is better than no chance.

Efforts have been made to accomplish this in 2014 and 2015 through the Minsk I and II agreements, although both have failed thus far. While unsuccessful, there is intrinsic value in these efforts. Physical force to resolve these disputes should continue to be reserved as the very final option. Diplomacy is the best tool for resolving the widening EU-Russia relationship. Therefore, efforts should continue to be made to have such conversations, like the ones that led to the development of the Minsk I and II

⁷⁰ Wyciszkiewicz, Ernest: Political and Social Perception of Sanctions

agreements. While the particularities of a potential Minsk III agreement fall outside the realm of my expertise, I do believe that efforts should still be made.

Of course, this is easier said than done. One must consider the long-term goals of the Russian government here in order to find a working solution. Explained by Stefan Bielanski of the Italian Institute for International Political Studies:

“One should consider an ultimate goal of Putin's policy as a radical change of the current spatial design of Central and East Europe with the intention of rebuilding Moscow's direct or indirect power over these territories. Putin seriously and repeatedly said that the dissolution of the USSR (which to him means also the rule of Russia) was the "greatest geopolitical catastrophe" of the 20th century. Putin's wars, from Georgia to Ukraine but also military intervention in Syria (the latter differs from the former ones, and is conducted formally in the name of the "war on Islamic terrorism"), have a territorial and, above all, geopolitical character. In this context, NATO and the European Union should play a leading role, call upon development and implementation of a real Ostpolitik (in a conjunction with the new reality of a Visegrad Group). Only in this way - considering the new geopolitical balances - it is possible to preserve the stability of the international security system.”⁽⁷¹⁾

Such aggressive and ambitious designs are not easier to satisfy without overturning the norms of international law and conduct. EU leadership should look to Finland for inspiration on effectively engaging with Russia. The historical Finnish policy of “Finlandisation” could serve as a better framework for future EU-Russia interactions. “Finlandisation” refers to a relationship dynamic between a smaller country and a much larger, more powerful large neighbor. The smaller country allows its policies to be influenced by its stronger neighbor⁽⁷²⁾. The term, referencing the historical Finnish-Russian dynamic, does not mean though that Finland simply acquiesces to Russian desires in the region. Finland accounts

⁷¹ Bielanski, Stefan: Polish-Russian Relations and the Burden of History: A Neighbour's View

⁷² Ponniah, Kevin: How Pragmatic Finland Deals with Its Russian Neighbour

for Russian power, but focuses on pragmatism for each interaction with its eastern neighbor ⁽⁷³⁾. Obviously, the analogy of Finland to the EU and the U.S. is not completely applicable due to the differences in geopolitical power, and does not account for the grievous nature of Russia's violations of international law. However, the usefulness of such an approach remains. Helsinki aims to maintain an on-going open and direct conversation with Moscow ⁽⁷⁴⁾. Copying this pragmatism-based idea could produce more useful results than attempting to isolate Russia politically, as EU nations have leaned towards via the withdrawal of diplomatic staff from Russia.

Focusing on realism more than punishment may provide a better foundation for a potential Minsk III agreement. The EU (and the U.S. to a lesser extent) made strides towards this in 2015 by tying the removal of economic sanctions to the full implementation of the Minsk agreements and the restoration of Ukraine's eastern border. While this represents progress by providing clarity to Russia about how they can resolve the crisis, there remains work to be done, as evidence by the ultimate failure of these agreements. More dialogue is needed. Not talking cannot lend itself to anything positive.

3) Pursue the Further European Alignment of Serbia

Thirdly, while I do advocate for further dialogue with Russia, it is still important to be aware of the dynamics at play within the wider European landscape. Increasing bargaining power with Russia should be pursued simultaneously with dialogue. Serbia remains Russia's greatest ally in the greater EU sphere. While not an EU member state, Serbia's proximity to the EU lends itself to a premier place of geopolitical importance. Seeking the increased integration of Serbia with the West is the third and final foreign policy recommendation.

Serbia holds strong cultural and religious ties with Russia, and has long supported Russian efforts ⁽⁷⁵⁾. Similarly, Serbia has not enacted Ukraine-related sanctions against Russia ⁽⁷⁶⁾. Considering that NATO

⁷³ Ponniah, Kevin: How Pragmatic Finland Deals with Its Russian Neighbour

⁷⁴ Ponniah, Kevin: How Pragmatic Finland Deals with Its Russian Neighbour

⁷⁵ Slobodchikoff, Michael: Eastern Europe Faces a Tough Choice on Russian Sanctions

⁷⁶ Savic, Misha, and Gordana Filipovic: Serbia Will Choose EU Over Russia If Forced, Premier Says

pursued military action against Serbia over the contested Kosovo region less than 20 years ago, the alignment of Serbia with the West would be a huge geopolitical success for the EU ⁽⁷⁷⁾.

The easiest way to ensure the Serbia alignment is via EU membership. Such a course is extremely difficult though due to the considerable Russian influence in Serbia. Related, Serbia fears the destabilization of the Balkans without Russian defense and economic support ⁽⁷⁸⁾. However, a further push into Russia's sphere of influence could also aggravate tensions as well. In 2016, Russia expressed a desire to provide more technologically advanced weaponry to Serbia, namely via the delivery of S300 surface-to-air missile systems. Understandably, EU member state Croatia objected strongly to this ⁽⁷⁹⁾. Therefore, further collaboration with Russia in the defense space could actually increase tensions, not decrease tensions in the Balkans, despite Serbia publically desiring the latter.

EU leadership should utilize Montenegro's EU accession as a roadmap for accomplishing the same goal with Serbia. Montenegro faces similar geopolitical threats as Serbia, considering they occupy the same region. Additionally, Montenegro is strongly economically tied to Russia, with up to 40% of real estate rumored to be Russian-owned ⁽⁸⁰⁾. Despite these significant hurdles, Montenegro succeeded in joining both the EU and NATO. A greater EU and NATO presence in the Balkans could aid in promoting stabilization efforts as well, therefore calming Serbian concerns about shifting away from Russian military support.

Finally, the Serbian government has already stated that joining the EU is a long-term priority. Former Serbian Prime Minister Aleksandar Vučić pledged to pursue EU membership, and his successor, current Serbian Prime Minister Ana Brnabić, has ensured that this effort will be continued ⁽⁸¹⁾. Furthermore, Brnabić has even gone so far as to say, "The EU is where we're going -- that's clear ... We do have

⁷⁷ Slobodchikoff, Michael: Eastern Europe Faces a Tough Choice on Russian Sanctions

⁷⁸ Stojanovic, Dusan: Russia Ready to Arm Balkan Ally Serbia

⁷⁹ Stojanovic, Dusan: Russia Ready to Arm Balkan Ally Serbia

⁸⁰ Bechev, Dimitar: Russia Sanctions: Balkan Countries React

⁸¹ Savic, Misha, and Gordana Filipovic: Serbia Will Choose EU Over Russia If Forced, Premier Says

emotional ties with Russia because of tradition, culture and religion. There are many people in Serbia who completely perceive Russia as our big brother, our protector... but our strategic path is the EU” (82).

Despite the warm relations between Serbia and Russia, and Russian objections to Serbian EU membership, it is encouraging to see these types of statements. However, there is still work to be done – a 2016 poll conducted by the Serbian European Integration Office found that only 47% of Serbs support EU accession (83). Therefore, while the EU courtship of Serbia is already underway, it is still important for EU leaders to communicate the tangible benefits of a greater EU-Serbia alignment to not just governmental leaders, but also to the Serbian populace.

⁸² Savic, Misha, and Gordana Filipovic: Serbia Will Choose EU Over Russia If Forced, Premier Says

⁸³ Savic, Misha, and Gordana Filipovic: Serbia Will Choose EU Over Russia If Forced, Premier Says

Policy Recommendations – Energy Policy

1) Institutionalize Three Seas Initiative & Invite Germany

Turning to energy policy recommendations, the main aim of these five recommendations is to increase EU market power via supply diversification. A more passive initiative than sanction policies, the reduction of Russian leverage on EU and V4 economies through diversification should result in a weaker Russian ability to retaliate against sanctioning countries. As Russia demonstrates considerable geopolitical influence via their energy supply capabilities, it is vital that the EU continues to investigate ways to diversify their supply base away from Russian natural gas. I do not advocate for a complete shift away from Russian natural gas, but only the option to switch suppliers if needed. Such optionality cannot be accomplished without the necessary infrastructure and institutions in place to facilitate this.

For V4 nations, the ideal way to pursue supply diversification is through the Three Seas Initiative, commonly referred to as just Three Seas. Consisting of nations bordering the Baltic, Adriatic, and Black Seas, hence the name, in addition to land-locked V4 nations, Three Seas creates a forum in which leaders of these countries can develop new energy capabilities and transport means ⁽⁸⁴⁾. Ideally, it is through Three Seas that the following four recommendations should be viewed. At this moment, Three Seas remains a loose confederation of nations, without any institutional framework. Due to the lack of a formal structure, progress facilitated by Three Seas has progressed very slowly to this point. A more formal structure, with official bi-annual meetings could spur quicker developments. Also allocating a small portion of funds from each member nation may work towards the same purpose. While a formal alliance or treaty may not be in the best interests of member nations, a more pseudo-formal arrangement would prove beneficial for creating tangible progress. A comparable organization, which has made steps towards institutionalization, would be the namesake of the V4 – the Visegrád Four. An informal alliance, the Visegrád Four arrangement combines a non-burdensome design along with funding for the International

⁸⁴ Reza, Zainab: What Is The Three Seas Initiative?

Visegrád Fund (IVF). The IVF coordinates greater cooperation between Czechia, Hungary, Poland, and Slovakia via scholarships and grant financing ⁽⁸⁵⁾. The creation of a similar body as the IVF for Three Seas (perhaps for energy research?) could prove to be a useful first step for further institutionalization.

One of the fears of increased institutionalization for Three Seas would be the potential message it may send to excluded nations. However, an appropriate framing, as in conjunction with EU energy policy goals, could remedy this. Furthermore, inviting Germany to Three Seas could also aid in calming isolationist concerns from other EU powers. Adding Germany to the Three Seas mix would shift the geopolitical conversation surrounding Nord Stream II as well. German businesses, the main (and perhaps only) EU beneficiary of an operational Nord Stream II, base their support of the pipeline in commercial interests. Discussed at length in *Essay 2: Energy*, the completion and use of Nord Stream II would increase Russian market power in the EU multiple times over, much to the chagrin of more eastern EU nations. What if the German business lobby could be incentivized towards a different energy project though? The addition of Germany to Three Seas would provide such an opportunity. From liquefied natural gas (LNG) growth to new southern pipelines and alternative energy opportunities, comparably massive commercial potential exists for Three Seas projects via the development of a North-South energy corridor. The Germans could provide much needed experience in developing resources and infrastructure as well. By creating this incentive for Germany, an alternative to Nord Stream II would finally exist, an alternative that could be supported by all EU member states. A more institutionalized Three Seas could ensure that the balance of power remains democratically equivalent across members, while simultaneously promoting integration and progress.

2) Invest in LNG Infrastructure

Within the natural gas industry, LNG growth is quickly outpacing the growth of pipeline-transported natural gas. Today, LNG accounts for 32% of globally traded natural gas, with projections expecting this

⁸⁵ Visegrad Fund: www.visegradfund.org/

figure to increase to 50% by 2035 ⁽⁸⁶⁾. The development of LNG markets will revolutionize natural gas markets, tying prices closer to global supply and demand inputs. This fundamental shift will reshape and weaken Russia's natural gas hegemony on the European continent – but only if V4 nations ensure access.

To date, only two Three Seas members possess operational LNG terminals, one each in Poland and Lithuania. Five more are planned, with the most important planned terminals for V4 nations being located in Poland (the FSRU Polish Baltic Sea Coast terminal) and Croatia (the Krk Island terminal) ⁽⁸⁷⁾. However, once the Croatian Krk Island terminal comes online in either 2019 or 2020, V4 nations will be unable to access LNG without the construction of a dual-flow connector between Croatia and Hungary ^{(88),(89)}. The current connector only allows for natural gas flows from Hungary to Croatia, not the other way around. In 2017 the Croatian and Hungarian governments signed a letter of intent to create such an interconnector which would be operational by March 2019 ⁽⁹⁰⁾. While this is a significant action, this agreement must not remain simply verbal, but put into action. I advocate for the construction and completion of such a connector between Hungary and Croatia as soon as possible. Again, an institutionalized Three Seas could help ensure this project is completed in a timely manner. Once linked into the Hungarian system, Croatian LNG could be transported to either Slovakia or Czechia, to the benefit of all V4 members.

A final caveat for LNG, if LNG is not competitive on cost with Russian natural gas, it will not matter what transport infrastructure is available, as it will not be demanded. The Croatian Krk Island terminal is not currently profitable, due to a lack of current infrastructure and cargo through-put ⁽⁹¹⁾. This of course affects the price at which Croatian LNG can be offered to customers. A poignant effort by V4 and Three

⁸⁶ BP Global: The Effect of LNG Growth on Global Gas Markets

⁸⁷ Gas Infrastructure Europe LNG Map: www.gie.eu/index.php/maps-data/lng-map

⁸⁸ Pavlic, Vedran: With LNG Terminal on Krk, Croatia to Become Important Energy Player

⁸⁹ Sadecki, Andrzej: Reverse-Flow Capability for Hungarian-Croatian Gas Pipeline Interconnector – Breaking the Deadlock

⁹⁰ Sadecki, Andrzej: Reverse-Flow Capability for Hungarian-Croatian Gas Pipeline Interconnector – Breaking the Deadlock

⁹¹ Obućina, Vedran: Polish Company Oz Logistics in Charge of Croatian Port of Rijeka

Seas members to commit to the demand of this LNG could provide a useful boost to expected profitability. Once increased demand is promised, the EU would be more likely to commit to co-financing Krk Island in the meantime as well, aiding in the infrastructure development efforts ⁽⁹²⁾. In short, the development of LNG in Central and Eastern Europe can only be accomplished through multi-lateral efforts. While this is a considerable challenge to balance so many regional interests, Three Seas was formed for challenges such as these. As LNG markets develop and globalize, further research will be needed to determine the best way forward to ensure LNG can compete with Russian pipeline natural gas.

3) Complete V4 Dual-Flow Capabilities

While the completion of dual-flow capabilities between Hungary and Croatia is important, the finalization of dual-flow connectors between all V4 nations is equally imperative. Currently such connectors exist between Czechia and Poland, and a proposed connector is under consideration between Hungary and Slovakia, via the Eastring pipeline ⁽⁹³⁾,⁽⁹⁴⁾. Therefore, there is no dual-flow capability between Poland and Slovakia, and thus Poland and Hungary. Whether for pipeline natural gas, or LNG natural gas from Polish terminals, the construction of a Polish-Slovakian connection is of the highest importance. The main reason for the lack of an existing connection is based on geography. Slovakia possesses a highly mountainous landscape, due to the presence of the Carpathian mountain range through most of the country. This makes energy and transport infrastructure extreme costly, hence why it has not been created. V4 nations should communicate the critical nature of this project to the EU in order to seek funding so as to lessen the funding burden upon V4 national economies. Establishing dual-flow capabilities between Poland and Slovakia would be a significant step towards realizing a true North-South corridor, connecting Poland and Baltic Sea nations to Croatia, Adriatic Sea nations, and beyond.

4) Fund Additional Pipeline Developments

⁹² Obućina, Vedran: Polish Company Oz Logistics in Charge of Croatian Port of Rijeka

⁹³ Gawlikowska-Fyk, Aleksandra: How the European Union Is Shaping the Gas Market in Poland

⁹⁴ The Slovak Spectator: spectator.sme.sk/c/20684893/slovakia-and-hungary-sign-memorandum-on-eastring-project.html

Similar in form to the preceding recommendation, EU and V4 countries should continue to fund the development of alternative natural gas pipelines in Northern, Eastern, and Southern Europe. Specific projects include Baltic Pipe, the Trans-Anatolian pipeline (TANAP), Trans-Adriatic pipeline (TAP), and the previously touched on Eastring pipeline. Baltic Pipe would form a direct link between Poland and Norwegian natural gas reserves in the Baltic Sea ⁽⁹⁵⁾. TANAP and TAP would connect Three Seas nations to Azerbaijani natural gas reserves in the Caspian Sea. Finally, Eastring would form still another linkage between Slovakia and Hungary to Romanian and Bulgarian natural gas reserves in the Black Sea ⁽⁹⁶⁾. Each of these pipelines are either under development or construction. All four prospective pipelines (Baltic Pipe, TANAP, TAP, and Eastring) will be necessary to hedge against the possible completion of Russia's Nord Stream II pipeline. Nord Stream I, already operational, and II, each possess a carrying capacity of 55 billion cubic meters of natural gas/year ⁽⁹⁷⁾. Baltic Pipe, TANAP and TAP, and Eastring will be capable of transporting 10, 10-16, and 20-40 billion cubic meters of natural gas/year, respectively ^{(98),(99)}. Therefore, on the low end, these alternative projects could supply at least 40 billion cubic meters of natural gas/year, and on the high end, a maximum of 66 billion cubic meters of natural gas/year. Realistically, the amount delivered per year will fall somewhere in the middle. This will provide Three Seas and V4 nations with the capability to source close to an equivalent amount of natural gas each year as would be provided by an operational Nord Stream II, assuming all pipelines are built and used. Due the importance of such a hedge existing against Russia's Nord Stream II, I recommend continued support for each of these alternative pipeline projects. Again, the goal of these energy recommendations is not to completely shift away from Russian natural gas, but simply the existence of an alternative to Russian natural gas, if needed. Via supply diversification (alternative pipeline options), the market power of V4 nations will be increased, and Russian geopolitical influence will be lessened in the region.

⁹⁵ Gawlikowska-Fyk, Aleksandra: How the European Union Is Shaping the Gas Market in Poland

⁹⁶ The Slovak Spectator: spectator.sme.sk/c/20684893/slovakia-and-hungary-sign-memorandum-on-eastring-project.html

⁹⁷ SouthFront: southfront.org/network-of-power/

⁹⁸ Larsen, Søren Juul: Baltic Pipe: Gas Pipeline, Connecting Denmark and Poland with Norway's Gas Fields

⁹⁹ SouthFront: southfront.org/network-of-power/

5) Promote Alternative Energy Options

Finally, V4 and Three Seas nations should investigate furthering their alternative energy capabilities. Whether, wind, solar, or hydro-electric power, an increased use of such options could achieve similar diversification goals as the preceding recommendations as well. This is a more popular method in Western European countries like Belgium, Luxembourg, the Netherlands, Germany, and Sweden than in V4 and Three Seas countries (¹⁰⁰). Much of this linked to extensive use of coal and other traditional forms of energy in these countries, yet still, the possibility should be considered. While the development of alternative energy would face significant cultural and structural barriers in V4 countries especially, their benefits still stand. Thus, I would encourage V4 and Three Seas countries to look into promoting the use and development of such resources in the future, after the preceding recommendations are first considered. The increased use of alternative energy sources should be seen more as a long-term project for Central and Eastern European nations, but a worthwhile project nonetheless.

Through one or all of the energy policy recommendations discussed here, substantial progress can be achieved in ensuring V4 energy supply security. By weakening the Russian energy hegemony in Europe, the EU and V4 can pursue sanction policies with substantially lessened fears of Russian economic retaliation. Ultimately this will help ensure greater effectiveness for European foreign policy efforts directed towards Russia when violations of international law occur, such as those in Ukraine in 2014.

¹⁰⁰ Obućina, Vedran: The Future of an LNG Terminal in Croatia

Policy Recommendations – Governance Policy

1) Continue Strengthening EU Ownership Transparency Policies

Next, regarding the EU’s transparency of ownership policies – I recommend the continual strengthening of these measures. The EU has made recent strides within this realm, which is encouraging. The EU’s Fourth Money Laundering Directive (MLD4) is the primary example of this. MLD4, explained by Baker McKenzie:

“In Europe, from 26 June 2017, member states are obliged by the EU's Fourth Money Laundering Directive (MLD4) to maintain a central register detailing the ultimate beneficial owners of their corporate and other legal entities. All corporate groups with EU entities will need to comply with the obligation and identify their beneficial owners (regardless of whether those individuals are located within or outside the EU).

Although the directive applies to all EU member states, each jurisdiction must adopt national implementing legislation. The regime may therefore look slightly different in each jurisdiction. Countries can choose, for example, whether they make the register of beneficial owners publicly available (it must, in any event, be made available to anyone with a "legitimate interest").”

(¹⁰¹)

The full implementation and execution MLD4 is especially critical at this time of escalated tensions between the EU and Russia. An effective MLD4 will aid the EU (and V4) in two ways – 1) the better identification of Russian ownership and interests in member states and 2) the assurance of compliance with EU sanction policies. Considering the aggressive ambitions of Russia as of late, it would be objectively worrisome for there to be significant Russian ownership of strategic industries within an EU member state. Specifically for Hungary, Russia has made attempts to own such a place within their

¹⁰¹ Baker McKenzie: www.bakermckenzie.com/en/insight/publications/2017/06/transparency-of-ownership

national economy in the past 10 years. Despite the relatively warm relationship between the two nations, Hungary has been successful in rebuffing significant Russian ownership of their banking and energy sectors. For more information on this, please see *Essay 3: Financial Services & Governance*. While most Russian corporate ownership and business interests are clear, not all are. Oftentimes, it can be difficult to tell who actually owns an entity after sorting through the multiplicity of shell companies and offshore accounts. With this ambiguity, a host of illicit organizational and governmental activities becomes all too easy. Therefore, first, strengthening transparency policies will make such efforts all the more difficult, ensuring member states are able to continually recognize and react to Russian attempts to acquire large stakes in critical industries. Secondly, a fuller knowledge of ownership will only strengthen the effectiveness of individual-level and economic-level EU sanction policies. With increases in transparency comes increases in difficulty for sanctioned Russian individuals and entities to circumvent sanctions within EU jurisdictions. Thus, transparency efforts are in the best interests of the EU and V4. MLD4 represents a good step in this direction.

I do have one critique of MLD4 in its current form – I do not think it goes far enough. I would recommend continuing strengthening transparency efforts via greater EU involvement in the process, as opposed to just delegating to the national level. While this could be perceived as an overreach of EU policy, I argue that this is an appropriate place for an EU-level solution, as I believe the benefits of transparency policies can be more fully realized via centralization.

The motivation for this suggestion stems from the failure of the EU to halt the 2014 Hungarian-Russian agreement for the Paks II nuclear power plant in Paks, Hungary. Paks II is a particularly worrisome development due to the possible influence it could provide to Russia within the Central European energy system. The contract for the power plant, awarded via a no-bid setup to Russian government-owned Rosatom, is in the billions of euros in size, and financed by Russia as well. Most notable of all, the Hungarian government has classified the details of the Paks II deal, justifying this under

the guise of national security and privacy ⁽¹⁰²⁾,⁽¹⁰³⁾. While Hungary is entitled to exercise their national sovereignty by developing energy sources as they see fit, they do not seem to be considering the wider geopolitical ramifications of Paks II. Thus, considering the importance of a project like Paks II for Hungary and the potential leverage it could provide Russia within an EU member state, I do believe there is still a need for greater transparency and accountability within Europe. The EU should assume such an increased role, objecting more to projects like Paks II, and pushing for greater transparency in business dealings within member states as is possible.

¹⁰² Herszenhorn, David M., et al.: Shrugging off Concerns, Europe Waves through Hungary's Controversial Nuke Deal

¹⁰³ Additional background on Paks II can be found in *Essay 3: Financial Services & Governance*

Policy Recommendations – Agricultural Policy

1) Communicate Recent Successes of EU Agricultural

Fourthly, for agriculture policy, there are two recommendations which EU leaders should consider. When EU and Russian sanctions were implemented in 2014, the agro-food industry expressed the greatest concerns about a future without the Russian market. At the time, Russia was the largest extra-EU market for the agro-food producers, and the loss of the ability to export to Russian partners was definitely worrisome. Producers and governmental leaders in V4 nations Czechia, Slovakia, and Hungary were especially vocal in the following months and years ⁽¹⁰⁴⁾,⁽¹⁰⁵⁾,⁽¹⁰⁶⁾. However, as explained in *Essay 5: Agriculture*, the demise of the V4 and EU has been greatly exaggerated. In fact, via EU aid policies aimed to support farmers and the diversification of export destinations, the agro-food sector has thrived since 2014. By the end of 2014 EU agro-food trade with non-EU nations had grown 2%, and has continued on this upward trend ⁽¹⁰⁷⁾. In the 12 month period from April 2016 to April 2017, trade with extra-EU nations saw a year-over-year gain of 3.4% in value, led by growth in the American, Chinese, Swiss, and Japanese markets in particular ⁽¹⁰⁸⁾. Within the V4, Poland experienced large gains in new Middle East, North African, and East Asian markets, and overall increases in agro-food export value of 7.1% and 7.7% in 2014 and 2015, respectively ⁽¹⁰⁹⁾. This is a theme for other V4 nations as well. Thus, EU and V4 nations, despite losing Russia, have diversified their export partners, and seen continual growth in the sector for which there was the most concerned.

¹⁰⁴ Balogov, Beata, and Michaela Terenzani: Slovakia to Feel Sanctions

¹⁰⁵ Lazarová, Daniela: Agriculture Ministry: Czech Exporters May Lose Hundreds of Millions of Crowns Due to Russian Food Embargo

¹⁰⁶ About Hungary: abouthungary.hu/the-spokesmans-blog-zoltan-kovacs/pm-orban-on-russia-and-eu-sanctions-we-cannot-treat-non-economic-problems-with-economic-measures/

¹⁰⁷ European Commission, Agriculture and Rural Development: EU Responses to the Russian Import Ban: Questions and Answers

¹⁰⁸ European Commission, Agriculture and Rural Development: Monitoring EU Agri-Food Trade: Development until April 2017

¹⁰⁹ Wyciszkievicz, Ernest: The Impact of Russian Sanctions on the Polish Agri-Food Sector

Despite trade statistics painting an encouraging picture, it is unclear whether local populations and the agro-food sector are aware of these successes. In order to maintain support of sanction policies on local levels and invalidate the myth that Russian counter-sanction policies (seen as a result of EU sanction policies) significantly harm EU agriculture, I recommend the continued communication of the growth and robustness of the agro-food industry. This EU-led marketing campaign, which targets the agricultural sector, should be designed in an easily accessible way. By promoting the successes that member states' agricultural economies have seen since 2014, the affected populations will be less likely to object to the continuation of the EU's own sanction policies. This will increase unity on this topic for V4 nations especially, who seem most likely to protest against sanctions.

2) Consider Continuing Aid Packages for Disadvantaged EU Producers As Needed

The success of the preceding recommendation is of course completely reliant on the continued ability of EU and V4 agricultural producers to weather the loss of Russian customers. This worry should not be of great concern due to the diversification efforts undertaken by the agro-food sector since counter-sanctions were implemented. However small, the possibility does exist. The EU has already shown their awareness of the importance of supporting agriculture via multiple aid packages in 2014, 2015, and 2016 aimed to support and compensate farmers for Russia-related losses ⁽¹¹⁰⁾,⁽¹¹¹⁾. In the case of some fundamental shift back to the Russian market, and the lost revenues that would follow such a course, I advocate for additional EU aid packages designated for producers. Again, while unlikely for a multitude of reasons, the importance of this remains.

¹¹⁰ Lazarová, Daniela: Agriculture Ministry: Czech Exporters May Lose Hundreds of Millions of Crowns Due to Russian Food Embargo

¹¹¹ European Commission, Agriculture and Rural Development: Russian Import Ban on Agricultural Products

Concluding Remarks

So we come to the close of this sixth essay, and the conclusion of this work as a whole. Western (EU, U.S., etc.) sanction policies are rooted and reasoned for as an appropriate response to Russian involvement in unrest in the Ukrainian regions of Crimea, Donetsk, and Luhansk in 2014. The first use of force to change European borders since the end of World War II, Russian actions in Ukraine are a grievous violation of not only international law, but of the post-war order. Reacting to Western sanctions, Russia instituted their own set of counter-sanctions. Four years later, questions remain unanswered about the effects of EU and Russian sanction policies on European economies. The task of this work was to investigate these effects, in particular for the V4 nations of Czechia, Hungary, Poland, and Slovakia.

The previous essays in this collection look at five different aspects of sanction repercussions. *Essay 1: Econometric Analyses* used a linear regression model to identify if restricted V4 exports have been affected in statistically significant ways by sanction policies. The following four essays, *Essay 2: Energy*, *Essay 3: Financial Services & Governance*, *Essay 4: Defense & Dual-Use*, and *Essay 5: Agriculture*, looked at affected economic sectors to provide more qualitative analyses of how sanctions have impacted V4 economies. In this sixth essay, we summarized the findings of each of these five, preceding essays, before providing an overview of current updates influencing the EU-Russia relationship. Finally, and most importantly here, I outlined 11 policy recommendations aimed at bettering the EU and V4 position within the EU-Russia relationship, while attempting to deescalate tensions between the two groups where possible.

As relevant today as it was in 2014, understanding the impacts of sanctions and our relationship with Russia matters, especially as tensions continue to rise between the West and Russia. Due to the dearth of V4-specific research on sanction policies and their economic impacts, I have attempted to begin to fill this void. This has been accomplished via undertaking a unique analysis of this topic which

provides both breadth and depth in an equivalently accessible way not just for economists, political scientists, and policymakers but for everyday citizens too.

By arming decision-makers with the necessary information to continue navigating an increasingly volatile world, I hope to aid in the creation of thoughtful foreign and economic policy on the European continent by all parties. Even if the reader is not a policymaker though, I desire that you may find value in this work too. The V4 nations are a critical part of the EU, with a combined population of over 60 million people. Understanding the interactions between policy and economic impacts will be beneficial not just for Czechia, Hungary, Poland, and Slovakia, but the EU as a whole, for the purpose of a stronger and more integrated European bloc.

Through each of these essays, I have ultimately attempted to communicate one fundamental goal – creative policies do exist that can benefit V4 nations and promote peace on the European continent. Now more than ever, V4-specific research matters. The role of V4 countries in European affairs only looks to increase in the future. Thus, there is still much work to do in investigating V4 topics, not just regarding the continued economic impact of sanctions and counter-sanctions, but more so for their increased integration within the EU as V4 nations look to achieve their potential as significant players on the world stage. I welcome all inquiries into my research and will continue to monitor the development of V4 economies and the EU and V4 relationship with Russia. With hope, I look forward to furthering conversations on these topics in order that all European countries may achieve a lasting peace based on mutual respect for one another. A final reminder, it is only through these types of conversations and dialogues that we may resolve our differences and disagreements, whether they be economic, political, or some combination of the two.

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