Analyse

Jens Bastian

The Sanctions Roulette in Southeast Europe

Abstract
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The complexities of crafting a sanctions regime against Russia and the manner in which countries in the region of Southeast Europe react to them is the subject of this contribution. While the Commission in Brussels expects that countries in the region commit to European foreign policy principles and regulations, individual governments have refused to adhere to such policy guidance. In doing so they are not outliers, neither in Europe nor when compared to numerous other countries in Africa, Asia or Latin America. The following contribution seeks to analyse the challenges of enforcing sanctions in various policy domains. The analysis sheds light on the sobering observation that sanctions-busting or explicit evasion are not necessary to legally continue doing business with Russia among countries in Southeast Europe.

Dr. Jens Bastian
(1960) is since July 2022 a fellow at the Centre for Applied Turkey Studies (CATS) of the German Institute for International and Security Affairs (Stiftung Wissenschaft und Politik, SWP) in Berlin, Germany. His main area of research concerns China's expanding investment and lending footprint in Southeast Europe and the Eastern Mediterranean.

Contact: *jens.bastian@swp-berlin.org*
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Introduction

In early June 2022, three countries in Southeast Europe, namely Montenegro, North Macedonia and Bulgaria refused to let a government plane carrying the Russian Foreign Minister Sergei Lavrov cross into their respective airspace for a planned official visit to Serbia. Denouncing the decision as a "hostile act", Lavrov could not carry out his diplomatic activities in Belgrade and instead travelled onward to Turkey.[1] The coordinated airspace closure by three NATO members from the region against Russia's top diplomat was unprecedented. The joint decision reflected adherence to escalating packages of sanctions that were proposed by the European Commission and adopted by EU member states as well as most candidate and accession countries following Russia's invasion of Ukraine on 24 February 2022 and the atrocities that subsequently came to light.

When considering Serbia, in May 2022, the government in Belgrade announced that it had agreed to a new deal with Russia to supply Serbia with natural gas for three years. The agreement further deepens the energy ties between Moscow and its long-standing, most reliable partner in the Western Balkans. In a press release the Kremlin said that Russia "would continue uninterrupted natural gas supplies to Serbia". Both presidents, Aleksandar Vučić of Serbia and Vladimir Putin of Russia, reaffirmed "their mutual determination to consistently bolster Russia-Serbia strategic partnership". According to president Vučić, Serbia is receiving Russian natural gas at the "most favourable price in Europe."[2] As countries across Europe are trying to reduce their energy dependence with Russia, the Serbian government is moving in two different directions. While Belgrade is reinforcing its energy co-operation with Moscow it is also attempting to diversify its gas imports. Serbia is in negotiations with gas rich Azerbaijan to identify alternative supply options for next year. However, this is conditional on the planned completion of the Serbia – Bulgaria gas interconnection (IBS) in mid-2023.[3]

Bosnia and Herzegovina is another illustration of the diversity of reactions among countries in Southeast Europe. On the occasion of the St. Petersburg Economic Forum in June 2022, the Bosnian Serb presidency member Milorad Dodik met his Russian counterpart Vladimir Putin in person. Both presidents praised their "very good relations". Dodik insisted that Bosnia and Herzegovina would not introduce sanctions against Russia and blocked any decision on the matter in the tripartite presidential council. The president of Republika Srpska went on to emphasize that "there can be no alternative to Russian energy, we want to continue with investments".[4] Banja Luka is building an infrastructure link with a gas pipeline in Serbia which is being supplied by Russia's Gazprom.[5] In a follow-up statement, Dodik argued that the "West imposed war in Ukraine on Russia [...] The conflict in Ukraine

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1 The Serbian, Turkish and Israeli airspace remains open for flights to and from Moscow as well as St. Petersburg.

2 See www.rferl.org/a/serbia-vucic-gas-deal-russia/31873908.html – Gazprom and its subsidiary Gazprom Neft are the largest foreign shareholders in Serbia's hydrocarbon company, Naftna Industrija Srbije (NIS). Moreover, Gazprom is the majority shareholder in Serbia's only gas storage facility in Banatski Dvor.

3 See https://energynews.pro/en/gas-serbia-negotiates-with-azerbaijan/ – The Serbian minister of mining and energy, Zorana Mihajlović, argues that once the IBS is operational, Azerbaijani gas can be connected with the Southern Gas Corridor, see www.azernews.az/oil_and_gas/181437.html

4 See www.intellinews.com/putin-praises-bosnia-s-dodik-for-loyalty-to-russia-247949/

5 *Philippe Descamps / Ana Otašević*, En Bosnie, l'art de continuer la guerre par d'autres moyens, in: Le Monde Diplomatique, Volume 69, May 2022, pp. 4–5.

is from the very start an operation that the West imposed on Russia, which is defending its national security and interests."[6]

The three examples illustrate the complexities and contradictions of the evolving sanctions regime against Russia in the region of Southeast Europe. While the Commission in Brussels has stated the expectation that countries in the region commit to European foreign policy principles and regulations, individual governments either refused to adhere to such policy guidance or are questioning the efficacy of sanctions.[7] In doing so they are not outliers, neither in Europe nor when compared to numerous other countries in Africa, Asia or Latin America. The following contribution seeks to analyse the challenges of enforcing sanctions in various policy fields. The analysis sheds light on the observation that it does not need sanctions-busting or explicit evasion to legally continue doing business with Russia among countries in Southeast Europe.

The Evolving Sanctions Architecture in Southeast Europe

Since February 2022, the EU has adopted seven rounds of economic, commercial, financial and person-related sanctions in retaliation for Russia's invasion of and subsequent war against Ukraine.[8] The different sanctions packages affect *inter alia* energy supply, banking transactions, commercial trade and the export of technological hard- as well as software. The measures have economic implications for participating countries and carry political risks for those who refuse to adopt them. While sanctions can be a powerful policy instrument to pressure a country to change course – see the former apartheid-era regime in South Africa and against then Rhodesia (now Zimbabwe) – economic, commercial and financial restrictions also carry costs for both sides, the sanctioned country and those adopting the measures. Furthermore, past success stories in the history of sanctions are not a roadmap for contemporary decision making. The nature of integrated economies and complex commercial supply chains that exist today are fundamentally different from the conditions prevailing in the previous century. Any decision on the virtues or limits of sanctions is simultaneously a political judgement about their domestic economic implications and social costs.[9]

Between late February and August 2022, North American, European and Asian governments have adopted different sanctions against Russia. What characterizes the sanctions regime for the region of Southeast Europe is the observation that it is not comprehensively implemented by all countries. There are three outliers – Serbia, Bosnia and Herzegovina as well as Turkey – who have refused to adopt *any* of the sanctions packages so far. By contrast, Montenegro, Albania, Kosovo and North Macedonia have followed EU policy guidelines and

6 BBC Monitoring Europe, Bosnian Serb leader says West "imposed" war in Ukraine on Russia, 6 August 2022.

7 In early August 2022, Croatian President Zoran Milanović argued that "we have sanctions that are not working, it will not harm Russia, if that is the goal … and what happened, it harmed us" (bne IntelliNews, Croatian president says Western sanctions aren't working, 09 August 2022).

8 The investigative journalism site Corrective.org provides a daily live update of all publicly announced sanctions against Russia, see https://correctiv.org/en/latest-stories/2022/03/01/sanctions-tracker-live-monitoring-of-all-sanctions-against-russia/

9 *Nicholas Mulder*, The Sanctions Weapon – Economic Sanctions Deliver Bigger Global Shocks than ever before and Are Easier to Evade, in: International Monetary Fund, Finance & Development, June 2022, pp. 20–23.

adopted the sanctions packages.[10] North Macedonia has also donated Soviet-era T-72 tanks and four Su-25 military planes to the Ukrainian armed forces.[11] This divergence reflects long-standing foreign policy differences and domestic institutional constraints among countries in the region. It also underlines recent political changes in the composition of individual governments (e.g. in Montenegro and North Macedonia). Finally, membership in the NATO alliance (Montenegro, Albania, and North Macedonia) is also a contributing factor; although not in the case of Turkey.

Individual countries in the region (e.g. Hungary, Greece, Croatia, and Bulgaria) have sought targeted exemptions and carve outs from sanctions, primarily associated with the energy sector (see further details below). These loopholes in the sanctions packages reflect national interests of individual countries. To illustrate the patchwork of loopholes consider the fact that Antwerp in Belgium is not implementing sanctions against Russian diamond exports. The diamond trade is exempted from all seven EU sanctions packages. Rival diamond hubs in Dubai and Mumbai could disproportionally benefit from the closure of Antwerp.

Faced with a new geo-strategic imperative, governments in Southeast Europe, as in other regions and continents, are scrambling to formulate timely policy responses. They include addressing complex and controversial elements of interdependence with Russia in supply chains. These concern safeguarding sovereign decision-making over food security and energy imports for their respective economies.[12] Against this mixed background of institutional governance constraints (e.g. in Bosnia and Herzegovina), energy interdependence and political exigency it cannot come as a surprise to an informed observer of developments in countries of Southeast Europe that there are governments in the region which either completely reject the adoption of sanctions or have strenuously sought time-sensitive opt-outs in individual economic sectors from specific elements of the sanctions packages.

– The EU and NATO member Hungary rejected the adoption of sanctions against fossil fuel imports from Russia through land-based oil pipelines. Hungary also laboured successfully in June 2022 to have Patriarch Kirill, the head of Russia's Orthodox Church, being excluded from EU sanctions. Budapest has equally refused to allow the supply of Western arms to Ukraine travel through Hungary.
– As land-locked countries, Bulgaria, Slovakia and the Czech Republic secured a derogation from the EU's oil import sanctions against Russia via Soviet-era land-based oil pipelines.[13]
– Croatia received an exemption so that it could continue importing beyond 2022 Russian vacuum gas oil (VCO) for its oil refinery in Rijeka.
– Greece, Malta and Cyprus, who represent the largest tanker fleets in the EU, received carve-outs to continue allowing their respective shipping industries to transport, distribute and import Russian seaborne oil. Greece is able to manage offshore ship-to-

10 For Montenegro see https://china-cee.eu/2022/05/05/montenegro-external-relations-briefing-montenegro-imposes-sanctions-on-russia/ – for Albania, North Macedonia and Kosovo see https://europeanwesternbalkans.com/2022/02/28/north-macedonia-kosovo-albania-join-sanctions-on-russia-montenegro-announces-them/

11 It is an irony of the development that North Macedonia in fact purchased this military equipment from Ukraine in 2001 during the ethnic Albanian insurgency, see Emerging Market Watch, North Macedonia: Government to Donate Tanks, Military Planes to Ukrainian Army, 08 August 2022.

12 *Janis Kluge et al.*, Wirtschaftssanktionen gegen Russland – Internationale Perspektiven und globale Auswirkungen, Stiftung Wissenschaft und Politik (SWP), 360 Grad, 11 July 2022.

13 See www.eceee.org/all-news/news/bulgaria-threatens-to-veto-eu-oil-ban-on-russia-unless-it-gets-derogation/

> ship (STS) loadings of Russian crude, for instance at Kalamata Port in the Peloponnese Peninsula. Records show that such STS offshore loadings in Greece during April and May 2022 included tankers that subsequently shipped the oil to destinations including the United Arab Emirates, India and China, incidentally three countries outside the Western hemisphere that do not adhere to the sanctions regime against Russia. According to a Reuters report, "Russian oil sellers have restored STS operations in Rotterdam and near Spain's Ceuta, after EU sanctions and activist protests derailed such operations in Denmark."[14]

As this comparative sample highlights, energy-related sanctions[15] have been the most contentious agenda item to date for countries in Southeast Europe. The aforementioned exemptions regarding fossil fuel supplies from Russia are complimentary to another key energy resource, namely substantial loopholes regarding nuclear energy. Ilyushin aircraft from Moscow continue to land in Bulgaria, Slovenia, Romania, the Czech Republic, Slovakia and Hungary. The European Commission has granted "special dispensation" for large Russian freighter aircraft that transport a crucial cargo for the operation of Russian-built nuclear reactors, that is nuclear fuel produced by TVEL, a subsidiary of the Russian company Rosatom.[16] There are two blocks of Russian-built nuclear power plants in Bulgaria, one in Slovenia and Romania (plus one under construction), four in Hungary and two in the Czech Republic, while Slovakia has four Soviet-era nuclear reactors. Since 2018, the government in Belgrade has an agreement with Rosatom for the development of nuclear infrastructure in Serbia.

Another area of the sanctions packages that is characterized by exemptions and loopholes concerns the financial sector, in particular transactions between commercial banks. The largest Russian bank – Sberbank (publicly owned) – was initially omitted from the EU's SWIFT ban. SWIFT stands for "Society for Worldwide Interbank Financial Telecommunication". It is the leading international intra-bank transaction network. The global payment system was created in 1973 and is based in Belgium. Alternatives to SWIFT are expanding. China has introduced CIPS (Cross-Border Inter-Bank Payment System), India developed the" Structured Financial Messaging System" (SFMS). Moreover, crypto-payment routes that intentionally bypass the SWIFT jurisdiction are increasingly being used and promoted by commercial banks from countries subject to sanctions, for example Iran, Venezuela, Russia and Belarus.

Sberbank was excluded from the SWIFT network by the EU in early June 2022. Alfa Bank (Russia's largest private bank) is banned in the United Kingdom and by the U.S., but notably not in the EU. Gazprombank – a major conduit for oil and energy-related payments in Europe – continues to be connected to the SWIFT network. This patchwork is further intensified by the fact that there exist different financial sector sanctions regimes between the U.S. and Europe. Exemptions for Russian banks across Europe imply that they can continue to execute international transactions with Russian lenders irrespective if the country in

14 See www.reuters.com/business/energy/greece-emerging-new-hub-russian-ship-to-ship-fuel-oil-exports-data-shows-2022-05-19/

15 The EU's oil import ban against Moscow takes effect in December 2022. For those countries that have secured derogations, the carve outs can last up to two years. European companies will still be legally allowed to purchase or transport Russian crude and petroleum products, e.g. from Rosneft, to third countries outside the EU.

16 Rosatom supplies power plants of Soviet design (e.g. the VVER-440 reactors) with the compatible uranium. It is the only company in the world to supply the specific nuclear fuel.

which they operate has adopted sanctions or not.[17] This *modus operandi* legally permits European lenders with subsidiaries in Southeast Europe to continue doing business with selected Russian banks, for example in the field of payment systems for the import of crude oil.

The complexity of introducing and subsequently holding together over a longer period of time the sanctions regime against Russia was further illustrated in the case of Lithuania, the Russian exclave Kaliningrad on the Baltic Sea and the limits of EU cohesion. In June 2022, Lithuania started blocking the transit of sanctioned goods from passing through the country and reaching the Russian exclave. As the government in Vilnius has the authority over the only rail route reaching Kaliningrad from Russia it enforced border checks concerning products transported on trains, in particular if sanctioned goods were included such as dual use technologies, steel, cement or military equipment.

Russia's reaction to this intervention was swift and included threats of retaliation. The Commission in Brussels had to persuade Lithuania to ease the blocking. It was not prepared to face a protracted standoff with Moscow in a geopolitically sensitive part of Europe. Vilnius was subsequently provided with new "guidance" for the implementation of "EU restrictive measures". Various observers in the Baltic state promptly interpreted this reaction as a form of caving in to Russian threats.[18] The Kaliningrad case illustrates the delicacy of and need for a cohesive sanctions strategy that does not risk to collapse when encountering the first Russian hurdle. Moreover, the message taken by those countries who in other regions of Europe do not partake in the EU sanctions regime was rather clear, that is "restrictive measures" against Russia can be riddled with exceptions and may not stand the test of time. The implementation of sanctions is at its weakest when they are expected to operate on shaky legal ground. In short, a patchwork of sanctions is hardly a policy, let alone a strategy if its capacity for resilience is weak.

Whether individual countries in Southeast Europe participate in the adoption and adherence of sanctions against Russia is primarily a political decision. Lurking behind that assessment is a deeper structural aspect: namely that the implementation of the seven sanctions packages introduced by the EU to date ultimately require a fundamental reassessment of the countries' respective political economies. Put otherwise, the combined financial, technological, energy-related and transport infrastructure sanctions as well as the individual measures against Russian diplomats, oligarchs, the confiscation of assets and travel bans have in common that they require addressing the institutional cornerstones of economic policy making. Such a challenge is further exasperated by pressing time constraints and the need to communicate to a concerned citizenry the rationale either for the adoption of sanctions, or the justification for their wholesale or partial rejection.

The Threat of Secondary Sanctions

The decision of some governments in Southeast Europe not to participate in the sanctions regime against Russia requires to subsequently walk a fine line. While Belgrade and Banja

17 See *Karel Lannoo*, To Make Moscow Truly Suffer, the Sanctions Screw Must Be Tightened Even Further, Centre for European Policy Studies (CEPS), 24 April 2022.

18 In July 2002, the EU-Russia partnership on Kaliningrad was adopted. It also regulated the transit of goods, services and Russian citizens to and from Kaliningrad through Lithuania. See: *Stefan Gänzle / Guido Müntel*, Europeanization "Beyond" Europe? EU Impact on Domestic Policies in the Russian Enclave of Kaliningrad, in: Journal of Baltic Studies, 2011, Vol. 42, issue 1, pp. 57–79.

Luka oppose the sanctions, they face expectations and demands from policy makers in Brussels and Berlin to adhere to the adopted restrictive measures. On the occasion of his visit to the region in May 2022, the German government's Special Representative for the Countries of the Western Balkans, Manuel Sarrazin, argued that Berlin "wants [that] Serbia reinforces its stand on Russia [...] introduce sanctions at least gradually [...] We expect Serbia to align with the EU sanctions."[19] Continuing to sit on two chairs for a country that is simultaneously closing new multi-year gas deals with Russia and negotiating EU accession with the Commission in Brussels is not a convincing act of policy triangulation. However, it has to be underlined that the political rhetoric of having to fall in line with EU rules in European and foreign policy making is contrasted by the absence of any material consequences that the EU or individual member states could bring to the table as potential pressure items against Belgrade. It remains to be seen if the Commission in Brussels could for example delay the opening of new chapters in the accession negotiations with Serbia. Making support for the EU's sanctions packages an element of current and future enlargement negotiations would be a novel form of policy conditionality for candidate countries.

This absence of material consequences for non-compliance is of a complete different nature when the issue of so-called "secondary sanctions" is raised as a policy option. Secondary sanctions are restrictive measures against citizens and organizations not subject to the sanctioning country's legal jurisdiction. They are applied when individuals or organizations (e.g. companies, foundations) engage in financial, commercial or material affairs prohibited under primary sanctions.[20] In 2018, the U.S. administration issued secondary economic sanctions against Iran related to its nuclear programme and in 2020, together with the Congress, against China in the Hong Kong Autonomy Act.

Both the U.S. administration and the EU have repeatedly reminded individual countries that they could face such secondary sanctions if they willingly breach existing sanctions against Russia, for example by exporting military hardware to Russia, providing technological products (e.g. microchips) or continuing to do business with financial institutions that are on international sanctions lists. The existence of such a threat is a powerful political and commercial instrument, even if it does not have to be implemented. The risk of being excluded from future business contracts (e.g. export blacklisting) can be seen as too high for individual companies (public or private) that are considering to engage with Russia. In June 2022, the Biden administration introduced secondary sanctions against five Chinese companies that were allegedly providing support to Russia's military. The violation of sanctions implied that Connec Electronic Ltd, King-Pai Technology, Sinno Electronics, Winninc Electronics and World Jetta (Hong Kong) Logistics are henceforth placed on an export blacklist and no U.S. entity is permitted to enter into any kind of commercial relations with them.

The case of Turkey and its willingness to chart a different course is noteworthy in this regard. Ankara condemned the Russian invasion and has supported Ukraine with military equipment, most notably drones. But it is also the only NATO member that has refused to impose sanctions on the Kremlin while carving out a critical role as mediator. The Turkish government closed off the Bosporus and Dardanelles straits to warships of riparian and non-riparian states four days after Russia's invasion of Ukraine. Only warships returning to their base in the Black Sea receive the right of passage. All other naval activity is restricted. Turkey has the authority to control the maritime passage between the Black Sea and the Mediterranean Sea through the Montreux Convention of 1936.

19 Bosnia Daily, German Envoy Says Berlin Wants Serbia to Impose Sanctions on Russia, 11 May 2022, p. 6.
20 See www.dowjones.com/professional/risk/glossary/sanctions/secondary-sanctions/

However, at the same time there are allegations that Turkish ports in Bandirma and Samsun are receiving grain shipments from Russian naval vessels that export their cargo from the port of Sevastopol in Crimea. The port is subject to international sanctions since Russia's illegal annexation of Crimea in 2014.[21] The allegation of facilitating grain smuggling through the Black Sea and subsequently selling the cargo to Turkish buyers, which Turkish authorities vigorously deny, nevertheless creates an acute political dilemma for the government in Ankara. In late July 2022, following complex negotiations with the United Nations and representatives from Moscow and Kiev, Ankara successfully brokered an agreement to reopen navigation routes for the establishment of a grain export corridor.[22] The reopening of shipment traffic and its safe passage is also critical for countries in the Western Balkans. A Ukrainian ship loaded with 6,000 tonnes of wheat arrived at the Albanian port of Durres on 10 August 2022 following the agreement brokered between Ukraine and Russia by Turkey and the UN.

Against this background of serving as an arbitrator for the prevention of a global food crisis allegations of being party to Black Sea wheat smuggling are more than a political distraction. In order to refute claims of sanctions leakage via Turkey, Turkish authorities detained in early July 2022 a Russian cargo ship that was accused of transporting stolen wheat from within Ukraine. While Turkey does not want to be seen as a hub[23] for sanctions evasion, the U.S. administration is involved in discussions with Ankara on how to improve sanctions co-ordination. In a letter dated 22 August 2022, which was sent to the Turkish Industry and Business Association (TÜSIAD), the U.S. Treasury Undersecretary Wally Adeyemo publicly warned Turkish companies and banks as follows: "Please be advised that relationships with sanctioned Russian actors may expose Turkish financial institutions and businesses to sanctions risk." [24] Such diplomatic pressure reflects the mounting difficulties of sanctions enforcement with countries that do not adopt them. The potential threat of issuing secondary sanctions against Turkish counterparties alleged to be involved in deliberate sanctions evasion and Russian asset sheltering is real and could imply high costs for businesses, for example the closure of U.S. market access.

The Turkish example and to a lesser degree the Serbian case and Bosnia and Herzegovina illustrate how some countries in Southeast Europe can use a series of "balancing triangles" to put pressure on the U.S. and the EU.[25] The contradictions and loopholes in the current sanctions regime against Russia enable individual countries in the region to demonstrate to third parties that the cost of deterring them could potentially be greater than the cost of concessions or the reluctant acceptance of their rejection of sanctions. This *modus operandi* also reflects a larger trend in the geopolitical recalibration which is taking place among countries in Southeast Europe. Some of them are simultaneously denouncing the

21 Financial Times, Ships Going Dark: Russia's Grain Smuggling in the Black Sea, 05 July 2022. Turkey is the single-largest importer of wheat from Russia in Europe. In order to diversify this dependency Turkey has recently started to import wheat from Argentina, see www.agricensus.com/Article/Rare-Argentina-wheat-arbitrage-yields-cargoes-for-Turkey-trade-19624.html

22 Turkey also has an immediate domestic interest to reopen such wheat supply corridors. Turkey receives over 80 percent of its supplies from Ukraine and Russia, see www.wsj.com/articles/putin-seeks-to-cement-ties-with-iran-turkey-in-rare-trip-abroad-11658055769

23 Russian oligarchs sanctioned by the USA, Britain and the EU continue to dock their superyachts in Turkish ports. The Turkish foreign minister, Mevlüt Çavuşoğlu, has welcomed Russian oligarchs' business in Turkey "as long as they respected international law", in: The Economist, How Turkey is Courting Russia's Oligarchs, 07 April 2022.

24 *Jared Malsin*, U.S. warns Turkish businesses against work with sanctioned Russian, in: The Wall Street Journal, 23 August 2022.

25 *Dmitry B. Grafov*, Strategy of Balancing in Turkish Foreign Policy, in: Vestnik MGIMO-Universiteta, 2022, Volume 15, No. 3, pp. 115 – 142.

Russian invasion against Ukraine, rejecting the sanctions levelled against Moscow and expanding their engagement with China. National interests and ideological divergences prevail as governments refuse to be drawn into binary decision making between Washington and Brussels or Moscow and Beijing.[26]

Russia's Counter Sanctions

The sanctions debate in Southeast Europe is not a one-way street targeting Russian assets, individuals or the broader economy and financial sector. It was only a matter of time until the Russian government would hit back in a tit-for-tat manner. What did surprise long-time analysts of Southeast Europe were the target countries that Russia decided to punish first and comprehensively. In late April 2022, the state-owned Russian energy conglomerate Gazprom announced that it had stopped fuel exports to Bulgaria, Poland and Finland. The official reasoning by Gazprom stated that these countries had refused to pay current oil and gas contracts in the Russian currency roubles to its subsidiary, Gazprombank. Prior to Gazprom's gas embargo, Bulgaria was among the top three countries with the highest ratio of energy dependency from Russia in Southeast Europe. Until April 2022, Bulgaria imported more than 90 percent of its gas requirements from one single country, namely Russia.

By contrast, Serbia, Bosnia and Herzegovina and Turkey are opting to secure their particular interests with Russia by defying the economic sanctions adopted by the EU. Israel further joins this triangle of countries in Southeast Europe and the Eastern Mediterranean.[27] They do not want to be drawn into a binary geopolitical competition between Russia and the U.S. or Russia and the EU. The refusal to downgrade ties with Moscow after the invasion of Ukraine should therefore not come as a surprise for seasoned observers of politics and international relations in these two regions. During the past two decades Serbia, Bosnia and Herzegovina, Turkey and Israel have all reached out to Russia and China, albeit for very different reasons and objectives.

Part of the reasoning and responsibility for this outreach lies in the diminishing influence of U.S. administrations in Southeast Europe and the Eastern Mediterranean. China more recently, and Russia traditionally, have filled this institutional void and established strategic anchors.[28] The other part concerns the decades-long process of disillusionment in Serbia, Turkey and Bosnia and Hercegovina concerning the EU accession process. This is not the place to point fingers at who is ultimately responsible for this disenchantment. The vibrant debate is a work in progress. The process of disillusionment is real and growing in these countries. The Russian invasion of Ukraine and the debate over sanctions against Russia has in fact accelerated this dynamic. How long such a balancing act between Washington, Moscow, Beijing and Brussels can persist remains to be seen.

26 *Alain Gresh*, Quand le Sud refuse de s'aligner sur l'Occident en Ukraine, in: Le Monde Diplomatique, Volume 69, May 2022, pp. 1 and 8. See also *Trita Parsi*, Why Non-Western Countries Tend to See Russia's War Very, Very Differently, Quincy Institute for Responsible Statecraft, 11 April 2022.

27 *Tuvia Gering*, A New Global Order? Israel's Relations with China and Russia in Light of the War in Ukraine, The Jerusalem Institute for Strategy and Security, 22 June 2022.

28 See *Jens Bastian*, The Dragon Reaches the Eastern Mediterranean: Why the Region Matters to China, in: Comparative Southeast European Studies, special issue, forthcoming.

Concluding Outlook

As winter approaches across Southeast Europe the emerging energy crisis is front and centre of policy debates about the continuation of sanctions against Russia and the need for steadfast coherence among participating countries. The achievement of such coherence will test the resolve of citizens, businesses and ultimately the political will of decision makers in the region. Various countries in the region still recall the experience of 2009. More than a decade ago Bosnia and Herzegovina, Bulgaria, Serbia and Croatia were at the receiving end of a contractual dispute in which the Russian government and Gazprom temporarily closed pipelines transporting natural gas for winter heating. The "gas crisis" of 2009 was a key trigger to re-evaluate energy security regulations between countries in accordance with the Energy Community for Southeast Europe. This included the introduction of so-called reverse flow capacity in cross-border energy coordination.[29]

The search for alternative energy resources and imports is already under way. What is emerging are some promising signs of multilateral cooperation initiatives, particularly in the energy sector. They underline the willingness of countries in Southeast Europe to accelerate the diversification of energy sources, gas suppliers and gas routes. Taken together, governments in the region are upgrading bilateral and multilateral areas of coordination. They seek to increase their levels of gas (import) security and thereby counter Russia's use of energy resources as an instrument of blackmail. Some recent examples include:

- Until recently, Bulgaria had no direct access to non-Russian gas supplies. Sofia is now starting to import additional gas resources from neighbouring countries, including Turkey and Greece. The construction of the interconnection between Turkey and Bulgaria will enable the supply of natural gas through the Trans-Anatolian Pipeline (TANAP).
- Both Greece and Bulgaria formerly inaugurated the long-delayed Interconnector Greece Bulgaria (ICGB) which is operational since July 2022. The ICGB connector delivers natural gas from Azerbaijan to Bulgaria and onward to Greece. The cross-border installation connects to the gas transmission network of Greece and then links with the Trans-Adriatic Pipeline (TAP).
- The construction of the ICGB was initially planned under a completely different international environment. Its completion is now placed in a narrative characterized by war, sanctions and the need to identify alternative energy resources. In this changing context, the ICGB is part of a multi-year project to expand the Southern Gas Corridor in the region.
- The ICGB will be able to supply Serbia with natural gas from existing LNG terminals in Greece and from the Trans-Adriatic Pipeline (TAP) as part of the Southern Gas Corridor.
- Regional energy security and upgrading infrastructure networks are key. Croatia announced in June 2022 that it will expand the capacity of its LNG terminal off Krk Island which was inaugurated in January 2021. The expansion will increase Croatia's LNG export volumes to neighbouring countries, including Hungary. Additional investments in Croatia's energy infrastructure such as Plinacro and JANAF oil pipelines are equally on the agenda.

29 See https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:295:0001:0022:EN:PDF

- Serbia is purchasing additional gas volumes and storage capacity from neighbouring Hungary. Simultaneously, Siniša Mali, Serbia's Minister of Finance announced in July 2022 that the government would purchase coal from China.[30]
- Gas reserves in the Eastern Mediterranean are substantial. The economic viability of constructing and financing an East Med gas pipeline project remains uncertain if major potential investors from outside the region continue to sit on the fence. The U.S. government withdrew its backing for the project. It rather favours faster solutions with increased LNG shipments.[31]

The other major initiative to foster regional cooperation among neighbouring countries in Southeast Europe concerns food security. More specifically, this involves the complex operation to organize two different means of wheat exports from Ukraine. In practice, they can supplement each other. They can also be seen as competing corridors supported by different facilitators and mediators.[32] For one, the July 2022 agreement between Kiev and Moscow with the United Nations and Turkey concerns maritime exports from ports in Ukraine through the Black Sea. The Ukrainian ports of Berdjansk and Mariupol are under Russian military control while Ukraine's largest maritime facility in Odessa is reopening after being blocked and mined since the Russian invasion in February. The implementation of this agreement critically depends on the regular safe passage of ships to and from Odessa. This precondition was immediately called into question when Russia bombed a section of the port less than a day after the agreement with the UN and Turkey.

The second corridor is via land-based rail and truck routes through Romania and Bulgaria with the logistical and financial support of France, Germany and the Commission in Brussels. With this assistance, a limited amount of last year's wheat harvest has been able to leave Ukraine through alternative land routes in Romania. These priority transport corridors, also termed "solidarity lines" are connecting with Ukrainian ports that are still operational and not under Russian occupation. For the first time since Russia's invasion, in July 2022 foreign tanker ships were able to access the Ukrainian Danube ports of Reni, Ismajil and Ust-Dunajsk. Passage through the Romanian Sulina Canal subsequently enables these tankers to reach other ports further south in the Black Sea such as Constanta[33] and Galati (Galatz) in Romania, Burgas as well as Varna in Bulgaria, Kumport and Gemlik in Turkey and the Port of Piraeus in Greece.

Russia's war against Ukraine is redrawing the maritime map of the Black Sea and the Eastern Mediterranean. This recalibration is giving new urgency to logistical issues and the operational capacity of port facilities across Southeast Europe. There are numerous challenges to be solved under pressing time constraints, including mine clearing in the Black Sea, the administrative paper work of cross border customs checks, trains running on different rail track systems, dredging in the Danube River, renewing locomotive licenses, quickly scaling up volume turnover and the scourge of corruption. To illustrate, if cargo from Ukraine is to reach the Romanian port of Galati, then the transport passes through a stretch of one kilometre in Moldova. This implies that the transport faces four (!) customs

30 *Attila Ághassi*, Serbia Purchases Gas from Hungary, 19. July 2022, www.euractiv.com/section/politics/short_news/serbia-purchases-gas-from-hungary/

31 See www.ekathimerini.com/opinion/1176904/us-pipeline-withdrawal-marks-new-chapter-in-eastern-mediterranean/

32 www.theguardian.com/world/2022/jun/17/france-and-turkey-propose-rival-plans-to-get-grain-out-of-ukraine

33 Constanta is the biggest port in the Black Sea. The logistics companies operating at the port can clear up to 50,000 tons of wheat per day. In 2021, 25.1 million tons of wheat were cleared in the port, see *Volker Pabst*, Logistische Herkulesaufgabe, in: Neue Züricher Zeitung, 16 July 2022, pp. 6–7.

checks with a concurrent loss of time. Put otherwise, regional cooperation between Romania, Moldova, Bulgaria, Ukraine and Turkey is a matter of urgency between countries that do not have a coherent track record of cooperation among each other and where difficult historical legacies continue to exist. Consider the following: the port of Reni was part of the historical region of Bessarabia which today mostly belongs to Moldova. Reni became part of Ukraine during WW II. The port can only be reached by railway which has to travel through Ukrainian territory.

The majority of these ports also display a characteristic which places them in the context of non-EU external actors exercising influence. This not only concerns the obvious villain Russia on the one side and Turkey seeking to position itself as a mediator on the other. There is a third external actor lurking in the background, namely China and the considerable port portfolio it has established in the region during the past decade. Various state-owned Chinese companies are either majority shareholders in ports (e.g. Kumport in Turkey and Piraeus in Greece) or are invested in the modernization and expansion of the two ports in Bulgaria. Thus, while the region is subject to unprecedented geo-strategic imperatives, China indirectly comes into play as an interlocutor with its maritime infrastructure portfolio in Southeast Europe.[34]

In light of the evolving sanctions regime, the future of commercial trade relations with Russia will be high on the policy agenda of decision-makers in the region. Turkey is among three countries (including China and India) that have increased their oil imports from Russia since the start of the invasion in Ukraine. This has helped Russia compensate declining crude exports to the EU. Russia overtook China as the single largest source of Turkish imports in 2022, primarily because of hydrocarbons. It does sit well in EU capital cities that Turkey is seen as a facilitator in grain exports from Ukraine but also faces accusations of helping "in the evasion of international embargoes for its own benefit."[35] Bilateral trade can now be settled in rouble. Five Turkish banks accept the Russian payment system Mir, a Moscow-based alternative to the SWIFT payment system. Turkey remains a key transshipment gateway for European companies trying to circumvent sanctions. The *modus operandi* is borderline legal. They first register exported goods in Turkey and these are subsequently resold to Russia.[36]

Serbia has a Free Trade Agreement (FTA) with the Eurasian Economic Union (EAEU) which includes Russia and Belarus along with Armenia, Kazakhstan and Kyrgyzstan. Bosnia and Herzegovina has applied for a FTA with the EAEU.[37] The energy agreements that Serbia and Bosnia and Herzegovina have with Russia also underline the weight that the country has in the regional economy and energy trade with countries in Southeast Europe. As the leading energy commodity exporter to the region, Russia continues to command a "structurally significant position" in individual countries.[38] Any deepening or expansion of (energy-related) trade integration by countries in Southeast Europe with the EAEU would have regional and security implications.

Russia's position is not without alternatives for countries in the region. The aforementioned examples of accelerating energy cooperation and diversification are one area where

34 Chinese construction companies completed the Pelješac Bridge in Croatia in July 2022. The EU co-funded bridge (85 percent) bypasses the Adriatic port at the Bay of Neum in Bosnia and Herzegovina.

35 *Barbara Moens* / *Sarah Anne Aarup* / *Paola Tamma*, Erdoğan walks a fine line as the Ukraine war's double agent, in: Politico, 17 August 2022.

36 Silk Road Briefing, Russia and Turkiye agree to trade in Rubles and dump US Dollar, 07 August 2022.

37 Serbia is currently in negotiations with China to sign a bilateral free trade agreement by end of 2022.

38 See *Mulder* 2022, op. cit., page 21.

Russia's dominance is starting to be challenged. Another is the Energy Community for Southeast Europe. This institutional setting which includes nine countries in Southeast Europe together with nineteen EU member states and the Commission in Brussels has made considerable progress in connecting energy markets (e.g. pipelines, gas corridors, electricity networks) in the region since its inception in 2005. The adoption of the goals established by the Green Agenda for the Western Balkans as part of the European Green Agreement in 2020 is equally part of the Energy Community's action plan. Two years later the roadmap towards regional energy transition reads like a counter proposal to Russia's exclusive focus on fossil fuels, coal exports and nuclear power plant construction. The longer the sanctions are in place and Russia continues to use energy resources for the purpose of blackmail, the more we can expect dynamic developments among countries in the region that make a return to the status quo ante politically unfeasible. Russia's "punishment" of Bulgaria by cutting off gas supplies in April 2022 is a first sign of such an emerging dynamic.

Crafting multiple sanctions packages in 2022 includes two major challenges, one policy related, the other operational. The latter concerns the continued implementation of restrictive measures and holding the participating countries together. As the past months have shown that in itself has proved a tall order. The effort also includes dissuading Ankara, Belgrade, Sarajevo and Budapest from helping Moscow to circumvent current sanctions. As regards the former, there is a need for continuous evaluation if the restrictive measures adopted hurt Russia more than the sanctioning states. The seven packages in the EU are structured to have a cumulative effect and exercise their impact over time. They are not meant to be short-term, "but systemic and punitive" against the Russian economy, its financial sector and trading capacity.[39] They should not be overrated as the key instrument to bring the war in Ukraine to an end any time soon. They require political consent and are the result of complex negotiations among the 27 EU member states.

The numerous loopholes in the current sanctions regime make a consistent implementation a practical challenge. The different legal escape routes introduced by the EU provide options and a rationale for individual countries who have expressed serious reservations regarding the efficacy of the seven packages. The evolving sanctions regime and the reactions displayed by different countries have again highlighted Russia's established footprint in specific economic sectors of the region.

Countries in Southeast Europe who have explicitly rejected the adoption of sanctions against Russia now face a challenging narrative. In June 2022, Ukraine was granted EU candidate status. The reasoning focused strongly on Kiev's defence of European values by resisting the Russian invasion. But if Ukraine now belongs to the group of possible future EU member states, then how should the Commission in Brussels address the candidate countries Serbia and Turkey when they continue to engage in close cooperation with Russia and China while rejecting targeted sanctions against Moscow?

The answer to this question includes a necessary debate about net-commodity-importing economies in Southeast Europe that have refused to join the sanctions regime against Russia. Nudging such economies towards the pro-sanctions camp will require providing them with short- and medium-term economic as well as financial support. So far, such support packages are not emerging on the horizon of policy makers' agenda of the Commission in Brussels, the World Bank and the International Monetary Fund (IMF) in Washington or the European Central Bank (ECB) in Frankfurt. The EU's High Representative for Foreign Affairs

39 *Alexey Yusupov*, What Did Western Sanctions on Russia Achieve?, in: IPS-Journal.eu, Foreign and Security Policy, 22 July 2022.

and Security Policy, Josep Borrell, emphasized during a meeting of the Foreign Affairs Council of the European Union in May 2022 that the Commission "will have to adapt our financial support in line with new needs in the region."[40] Time will tell how this adaptation process materializes. Given the circumstances prevailing in the second half of 2022, economies and governments in Southeast Europe do not have the luxury of time. Countries in the region have known first-hand during the past decades that Russia is a large neighbour and will remain so by fact of geography.

40 See www.eeas.europa.eu/eeas/foreign-affairs-council-remarks-high-representative-josep-borrell-press-conference-1_en