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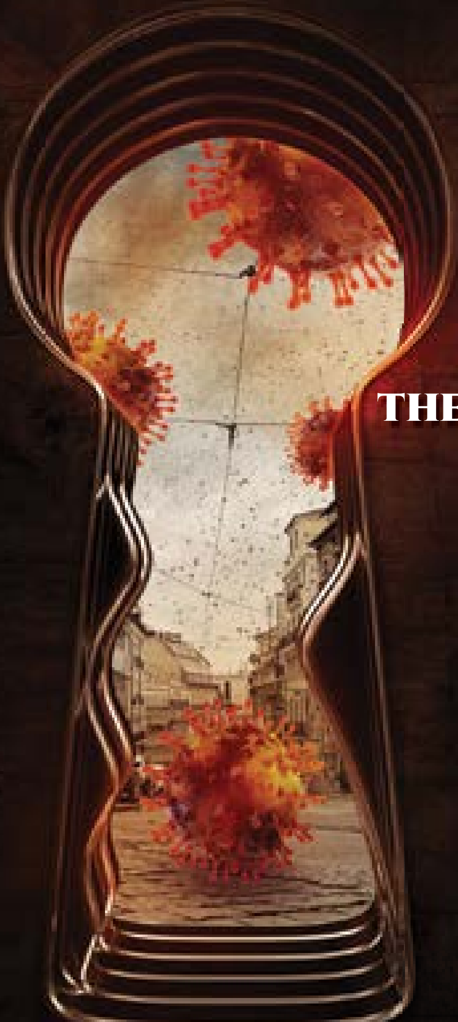

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THE END OF TRANSATLANTICISM?

HOW SANCTIONS ARE DIVIDING THE WEST

Rawi Abdelal and Aurélie Bros

SANCTIONS are have become the dominant tool of statecraft of the United States and other Western states during the post-Cold War era. Sanctions are useful when diplomacy is not sufficient but force is too costly. Despite decades of scholarship that explains the nuances of sanctions, it is still all too common to hear misguided inquiries into whether sanctions "work," as though such a tool might be chosen only to change behavior that is resistant to outside influence or without regard to the relevant policy options. The capacity of states under sanctions to adapt is, furthermore, too often forgotten. Sanctions imposed on the Islamic Republic of Iran and the Russian Federation are two telling examples.

In this essay we explore the unintended and somewhat paradoxical geopolitical consequences of Western sanctions on Iran and Russia. Although Iran and Russia may have actively sought from time to time to undermine Transatlanticism, those efforts have, for the most part, failed. Tensions about Russia and Iran have, however, succeeded where those two countries themselves failed.

The American over-use of unilateral economic sanctions as a tool of statecraft, especially in the energy sector, has significantly undermined Transatlanticism. The so-called secondary sanctions, better known as extraterritorial sanctions, imposed on both Iran and Russia are at the core of these tensions.

In May 2016, Washington announced its withdrawal from the Joint Comprehensive Plan of Action (JCPOA) and introduced

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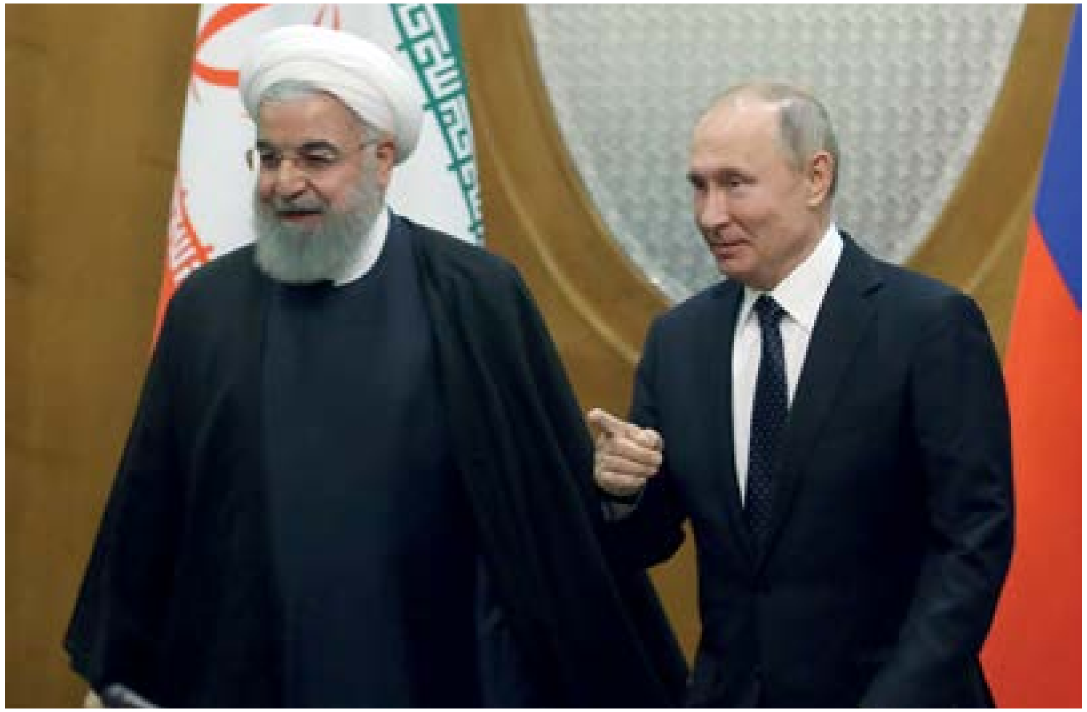

Photo: Guliver Image/Getty Images

Leaders of two sanctioned countries dividing the West

a "maximum pressure" campaign against Iran, thereby causing a public rebuke by European political and business elites, as well souring public opinion. Then, U.S. president Donald Trump signed in August 2017 the Countering America's Adversaries Through Sanctions Act (CAATSA), which imposes sanctions on Iran, North Korea, and Russia.

Since then, there are persistent tensions inside the United States over imposing new sanctions on Russia, including at the moment when new sanctions were imposed in February 2020 against the oil industry because of Rosneft's activities in Venezuela. The overall situation has generated frustration and outrage throughout European business communities, especially since Trump signed a law threatening sanctions against companies involved in constructing Nord Stream 2.

Differences in the approach of the United States and Europe over the type and intensity of economic statecraft against both Iran and Russia that emerged approximately five years ago have increasingly undermined Transatlanticism. These fissures began before Trump's election, it must be pointed out. Under Trump, however, things have gotten worse; consider, for instance, the American president's

June 2019 statement that "Europe treats us worse than China. [...] European nations were set up in order to take advantage of the United States." Overall, fears of an impending failure of the Transatlantic relationship, set in the context of increasing American unilateralism and harsh criticism of the European Union, has put a damper on U.S.-European cooperation.

> *Differences in the approach of the United States and Europe over the type and intensity of economic statecraft against both Iran and Russia that emerged approximately five years ago have increasingly undermined Transatlanticism.*

In addition, this division was heightened by Iranian and Russian adaptation to sanctions—measures that have transformed the perspective to European companies. All of this might even have reinvigorated the European project, by triggering a debate on the need for European countries to protect their economic sovereignty. The use of economic coercion by the Trump Administration against European countries has revealed their vulnerability to any form of weaponization of economic interdependence by the United States.

Consensus on Secondary Sanctions?

The main goal of American and EU energy-related sanctions—which constitute the bulk of economic and trade sanctions in the Iranian and Russian cases—is to make the renewal and export of oil and gas resources more difficult, thereby depriving Iran and Russia of income. This can be achieved through a total or partial disconnection of these targeted countries from international financial, energy, or insurance markets.

Before the introduction of Western sanctions, both Iran and Russia were highly dependent on the West for at least four crucial matters: access to energy markets; the price of oil and natural gas; Western technologies and investments; and cheap Western credit.

Oil and gas revenues compose a large part of the national budgets of these nations and play a significant role in economic development. Generous state energy subsidies ensured social stability and sometimes financed military forces, including the Islamic Revolutionary Guard Corps (IRGC). Energy-related sanctions thus undermine the integrity of a targeted government by depriving it of revenues and weakening domestic energy firms, which are often the most profitable and politically meaningful. These effects also make structural reforms to diversify and modernize the economy more difficult to achieve. Any kind of energy transition also would be constrained.

Energy-related sanctions allow significant room to maneuver to the United States and the European Union. The Iranian case shows that restrictive sanctions can have an almost immediate effect on the energy sector (as the 2012 EU oil embargo) and consequently on the economy. More comprehensive sanctions have long-term effects, as in the Russian case.

On the U.S. and European side, in 2014, the logic was the following: not affecting current Russian oil exports, which could disrupt supplies and potentially drive up global prices, but undermining Russian oil production over the long run. The entire Russian economy is not sanctioned, and that is why the American sectoral sanctions identifications (the SSI list) was created in 2014. It forbids certain kinds of financial transactions, while most of the others are allowed. The "classical" Specially Designated Nationals and Blocked Persons List (the SDN list) does target specific individuals, vessels, and entities, such as Rosneft and Gazpromneft. Last but not least, no sanctions have been imposed on the insurance sector. This means that companies (whatever their nationality) can still hedge when they buy Russian oil.

Sanctions also tarnish Russia's and Iran's diplomatic reputation—almost impossible to quantify in monetary terms. The reputation risk is, nevertheless, a compelling psychological element of the sanctions regime.

Western sanctions carry much more than simple pecuniary costs. They can significantly hinder Russia's and Iran's ability to establish closer ties with other nations, companies, and entities in the West. Financial services firms, for example, become more wary of engaging with sanctioned countries for fear of violating American law.

Transatlantic Fissures

Although the United States and Europe largely agree on the "substance" of sanctions, they disagree on their implementation. The crux of the matter is American secondary sanctions, also known as extraterritorial sanctions. These secondary sanctions have become the primary vehicle for signaling and even implementing a decoupling of American and European political objectives.

It is necessary to distinguish between American primary sanctions and secondary sanctions. Primary sanctions restrict American companies, entities, and citizens from doing business with a sanctioned country or entities under sanctions. They also apply to American transactions and U.S.-origin goods on American territory. To some extent, European restrictive measures follow the same logic. Individuals, businesspeople, and entities under the scope of the EU's jurisdiction are limited in their "interactions" with a country or entities under sanctions.

American secondary sanctions forbid any transaction in U.S. dollars and prevent any American "nexus" from doing business with a country, persons, or organization under the sanction regime of the United States (Cornell University Law School provides a commonly accepted definition of a "nexus" in this context: "any United States citizen, permanent resident, alien, entity organized under the laws of the U.S. or any jurisdiction within the United Sates (including foreign branches), or any person in the United States"). To put it simply, these sanctions also target foreigners, hence the name of extraterritorial sanctions.

A U.S. nexus operating in a foreign jurisdiction cannot be involved in negotiating, approving, or otherwise facilitating any portion of a prohibited transaction. Individuals and businesses thus are obliged to clarify in advance whether their proposed activities comply with American laws. The result is an astonishingly comprehensive set of restrictions that preclude business conducted in dollars or that touches in essentially any way an American firm or individual. Financial institutions, insurance companies, and energy companies cannot operate within Iranian and Russian jurisdictions.

The result is an astonishingly comprehensive set of restrictions that preclude business conducted in dollars or that touches in essentially any way an American firm or individual.

Secondary sanctions have often divided the United States and Europe because they represent American interference in EU affairs and interests. The more secondary sanctions are employed, the more they are perceived in the EU as infringements of both national and Union sovereignty—as an unacceptable intervention in the EU's autonomous decisionmaking.

For example, the 1996 "Iran and Libya Sanctions Act," issued by the Clinton Administration, which imposed secondary sanctions on Iran, became a bone of contention between the EU and the United States. Although the EU did not call into question the fight against terrorism, it objected to the way Washington attempted to eradicate it, while complaining about the fact that the United States was conducting its own agenda.

At that time, some EU member states had strong economic connections with Iranian business, and the re-imposition of secondary sanctions on Iran after Washington's withdrawal from the JCPOA has become the primary tool by which the United States deters European firms from implementing an agreement to which their national governments remain committed. The same situation occurred in 2014 and 2017, when the United States imposed secondary sanctions on Russia and increased the list of secondary sanctions (more on this below).

Even worse, the ongoing conflict between the executive and legislative branches of the United States government tends toward an escalation of sanctions against Russia and prevents the emergence of a Transatlantic consensus.

The costs of complying with America's secondary sanctions are perceived as too high for numerous European companies, which have been forced to leave Iran and thereby lose many long-term investments, and either to downscale their investments or change their investment model to continue to operate in Russia. Moreover, European energy companies, banks, and insurance companies face the threat of a fine or even disconnection from America's clearing system.

In July 2014, for example, two French banks, BNP Paribas and Crédit Agricole S.A., were ordered to pay almost $9 billion and $329.5 million, respectively, as a result of violations of various American sanctions programs against Sudan, Iran, Cuba, and Myanmar between 2003 and 2008. In 2015, the German financial institution Deutsche Bank was fined $258 million for violating American sanctions. Recently, the Italian bank UniCredit had to pay $1.3 billion for the same reason.

It is not always clear whether the violation of U.S. law was a conscious decision or the result of an inability to trade hydrocarbons without using the American financial system. This chilling effect is leading to increasing self-censorship, also called "de-risking" and "over-compliance," which is fueling increasing frustration inside the European Union because European companies must incorporate—and preeminently, at that—a foreign national law into their business strategies.

Furthermore, Trump's withdrawal from the JCPOA shows that the list of sanctions can grow anytime, and that reconnecting with international energy markets after decades of sanctions is largely subject to the goodwill of sanctioning states, as well as European investment in targeted countries.

Iran Adapts

Sanctions against Iran can be divided into three distinct categories.

First, *America's unilateral sanctions*, which date back to the 1979 Iran hostage crisis and are numerous.

Washington also imposed manifold unilateral sanctions on Iran's energy sector from 2006 until 2013, which approximately corresponds to Mahmoud Ahmadinejad's presidency.

Second, the *EU's unilateral sanctions*. These were prompted by the election of Mahmoud Ahmadinejad in 2005 and Tehran's efforts to acquire the capability to build nuclear weapons, coupled with the development of a ballistic missile program, were a game changer in Europe. The EU decided to impose manifold unilateral sanctions on Iran's energy sector from 2007 onwards.

Third, sanctions authorized by the *UN Security Council*. These came in waves in the period between 2006 and 2010. Unlike American and EU sanctions, the scope of sanctions passed by the Security Council is somewhat limited. They target Tehran's nuclear and ballistic missile programs but do not affect the energy sector, due to Chinese and Russian opposition.

The consequences of American and EU sanctions were many (the list below is non-exhaustive) and the impact of sanctions was magnified by structural problems. Such a situation led to the elimination of Iran from regional and global gas markets despite its huge reserves. Consequences have included:

- the reduction of oil and condensate production and exports, particularly to Iraq, due to the embargo on oil;
- the impossibility of developing the country's liquefied natural gas sector partly due to the restriction to services to Iran's shipping and shipbuilding industries, and the lack of technology;
- the cancellation of projects led by Western foreign companies, decreasing refining capacity, isolation of Iran's Central Bank, and no access of the largest Iranian banks to the American financial system; and
- disconnection from the SWIFT system.

One of Tehran's responses to sanctions was to establish a "resistance economy"—a concept memorialized in policy doctrine announced by Iran's Supreme Leader Ayatollah Ali Khamenei in September 2010. This economic model was supposed to make Iran resistant to all kinds of economic shocks and reduce its reliance on a single commodity.

The Iranian resistance economy is polymorphic and includes, among other things, the expansion of domestic capabilities, the reduction of dependence on oil exports, and the setting up of efforts for self-reliance via substitution. It also includes the development of the large non-oil industrial sector, the continuation of trade relations with neighboring countries even if they have difficult relations with the United States, and the cultivation of a certain expertise in smuggling.

In August 2013, Hassan Rouhani, representing the relatively moderate and reformist faction, won the presidential election and started working on trying to reintegrate Iran into the international community and reconnect its energy sector with international markets. In other words, President Rouhani and his allies sought to move beyond the resistance economy.

The consequences of American and EU sanctions led to the elimination of Iran from regional and global gas markets despite its huge reserves.

Seen from Rouhani's perspective, the more Asian and European companies invest in Iran, the less the United States might be able to increase its sanctions regime, thus making the reconnection to energy markets more possible. Between the first day of the implementation the JCPOA and the American decision to withdraw from this agreement, Tehran did in fact start to re-connect its energy sector with international markets and to reap the fruits of the ongoing normalization of relations with the international community.

Its five principal objectives were to (i) develop oil and gas production; (ii) export oil; (iii) expand natural gas output to meet growing domestic demand and avoid becoming a net gas importer; (iv) attract investments and facilitate technology transfer; and (v) diversify its international energy portfolio. In most instances, Tehran tried to strike a balance between Europe and Asia, between private Western international oil companies and Russian/Chinese international oil companies with close links to their respective governments, and between state and private Iranian oil companies.

This Iranian policy of openness resulted in the sixth Five-Year Development Plan (approved in March 2017), which was drafted by the Expediency Discernment Council in order to modernize the Iranian economy. The plan was supposed to deliver economic growth, improve the country's regional and international position, and enhance its business environment and competitiveness.

In May 2018, Washington declared its withdrawal from the JCPOA. Two weeks later, the main requirements for a new agreement with Tehran were explained. Washington, among others, demanded that Tehran withdraw forces from Syria, end its support of Hamas and Hezbollah, and put an end to nuclear enrichment and the development of nuclear-capable missiles.

At the same time, the Trump Administration has not clearly stated the necessary conditions for the removal of sanctions, which fact has created many misunderstandings. It suggests two possible scenarios: a regime change in Iran or the "capitulation" of the current Iranian government, both of which are more wishful thinking than effective foreign policy doctrine.

The more Asian and European companies invest in Iran, the less the United States might be able to increase its sanctions regime, thus making the reconnection to energy markets more possible.

Multiple recent American attempts to bring Iran's hydrocarbon production to zero and totally disconnect the country from world energy and financial markets will not necessarily lead to the signature of a more comprehensive agreement that the JCPOA. So far, Teheran remains away from the negotiation table. Furthermore, U.S. policy is certainly not about to result in regime collapse, notwithstanding recent large-scale post-parliamentary election demonstrations and the regime's (related) mishandling of the spread of the novel coronavirus. The Iranian government requested that the United States ameliorate sanctions because of the virus, but the American government has thus far refused. Tensions between the Iran and the United States are growing more severe. Still, these external pressures will unlikely be the fundamental cause of any regime collapse.

Rather, such a situation fuels tensions between conservatives and moderates inside Iran. So far, the Trump Administration's decision has contributed to the consolidation of the IRGC's hold on the Iranian energy sector (initially, American and EU sanctions were introduced to have the opposite effect). The "hardliners" have become more powerful in the country. Over the last several months, we have observed a shift towards more radical elements of the Iranian regime.

This situation is throwing a number of novel uncertainties into the preparations for the upcoming Iranian presidential election in 2021. Moreover, it is quite clear that the country might not be able to face the American military in times of armed conflict (if that were to happen). Nonetheless, despite a disastrous economic situation (the economy contracted by more than 9 percent in 2019) and a broken financial sector, the Islamic Republic is still capable of imposing significant harm to the world economy by generating enough insecurity in the Middle East to make navigating the Strait of Hormuz unattractive at a time when Trump has promised to end "America's endless wars" overseas. The COVID-19 outbreak and the collapse of oil prices have put ever greater pressure on Iranian society and the country's economy, and the unpopularity of Rouhani's government is growing. However, Washington's efforts to impose new sanctions in such a context, as well as America's opposition to a potential IMF loan to Tehran, could also backfire by strengthening domestic resistance to American pressure.

The Islamic Republic is still capable of imposing significant harm to the world economy by generating enough insecurity in the Middle East to make navigating the Strait of Hormuz unattractive.

Russia Adapts

In the context of Russia, American and EU sanctions are structured around three basic categories:

- capital market restrictions;
- prohibition of transactions dealing with new long-term debts (indirectly it deprives Russian companies of cheap Western loans);
- limitations on technical assistance and access to specific technologies, which undermine the development of oil greenfields (especially shale plays), the Arctic shelf, the Caspian Sea aquatorium, and deep offshore exploration (exploration and production of greenfields that will replace cheap-to-produce brownfields might be troublesome.)

From March 2014 until January 2017, the EU and the United States worked together to prevent inconsistencies, mainly trying to avoid putting America's European allies in an awkward position by sanctioning the gas sector and gas transport infrastructure. This would have jeopardized the European security of supply. It is of note that in 2014, Russian natural gas represented approximately 40 percent of total European gas imports.

This is mainly the result of the growing relationship between the EU and Russia over the course of the 2000s and early 2010s, as well as the low price of Russian gas. However, the production of natural gas falls within the sanctions regime if the explored field, located on the Russian territory, is an associated gas field that will lead to the production of oil.

Since the middle of 2014, the Russian state and energy companies have above all suffered more from low oil prices than from American sanctions. The Russian state has found itself in a precarious position. Due to falling oil prices, its hydrocarbon rents started significantly to decline and led, in part, to a two-year recession. During this period, the share of oil and gas within the state budget slightly decreased to approximately 43 percent in 2015 and 37.4 percent in the first quarter of 2016—a direct consequence of the deterioration of the oil market, as well as political will to reduce the exposure of the Russian budget to increasing volatility. As a result, Russia's federal budget progressively shifted from a surplus to a budget deficit.

European sanctions against Russia have not, unlike American sanctions, significantly increased since 2017.

Oil production has not been adversely affected by sanctions, but sanctions have resulted in at least two negative developments. First, they have impeded the development of the oil greenfields which are intended to replace brownfields; and second, they have significantly undermined the development of the Arctic shelf, the Caspian Sea aquatorium, and shale plays. These next generation oil sources will require technologies and equipment currently not available in Russia.

The situation is even more critical given that Russian oil companies need foreign investors to support the costly development of new projects. Western sanctions have had no direct effect in the short run as those projects were intended to come online later (in about five or ten years), but they have dissuaded foreign firms from investing significantly in the development of these oil resources.

Overall, European sanctions against Russia have not, unlike American sanctions, significantly increased since 2017. Under the CAATSA, both SSI and SDN lists have increased in order to increase as much as possible Russia's room for maneuver and capability to adapt. For example, new sanctions make the development of shale oil difficult for Russian companies like Rosneft—if one were to interpret U.S. sanctions very strictly.

In December 2019, Trump introduced sanctions on companies involved in the construction of the Nord Stream 2 gas pipeline. Since that time, American politicians have made continuous efforts to stop the project, and Senator Ted Cruz seems to have become the leader of this effort. Unsurprisingly, these new sanctions and attempts to stop the project have generated frustration and outrage throughout European business communities (with the exception of those in Poland). Both Brussels and Berlin have accused the U.S. government of interfering in national policies and EU sovereignty. As a consequence, some EU companies are now calling for EU-wide cooperation in order to put themselves beyond the reach of American sanctions, since recent American steps have been interpreted as crass attempts to enable the United States to export more LNG to Europe.

So far, this most recent wave of American sanctions has delayed the construction project rather than prevent it. Even if the Swiss-Dutch company Allseas has suspended work to avoid sanctions, with just 6 percent of its offshore section left to lay, the Gazprom-owned Akademik Cherskiy pipe-laying vessel (located in the Far East, as of mid-April, and now in the Baltic Sea, as of early May) is supposed to complete the Nord Stream 2 gas pipeline.

No one realistically believes that Putin will return Crimea to Ukraine because of the imposition of sanctions, no matter how thorough or painful they may be.

Russia Adapts Some More

No one realistically believes that the regime of President Vladimir Putin will return Crimea to Ukraine because of the imposition of sanctions, no matter how thorough or painful they may be. Even a moment's thought suggests that the opposite would have been more likely—since the regime in Moscow could not be seen to have bowed to foreign pressure.

Even had Moscow wanted desperately to relinquish its claims to the peninsula—which does not appear to be the case—the sanctions regime has made the choice nearly impossible. At no time since the annexation has any major Western power (or NATO, for that matter) been prepared to countenance armed conflict with Russia to preserve the territorial integrity of Ukraine. Force was, in other words, too much. Yet all the Western support for regime change in Ukraine meant that after the unfolding of the Euromaidan, the annexation, and the conflict in East Ukraine, diplomacy by itself would have been insuf ficient. Rather, sanctions were chosen to signal displeasure, to punish, to create inconvenient internal divisions inside Russia and among supporters of the Putin regime, and weaken Russia's hydrocarbons-exporting economy.

In this context, Russia has started to adapt. Like Iran, Russia has structural problems that made the situation worse, but in order to decrease the influence of Washington's decisions, Moscow has found a way to mitigate some negative consequences of American sanctions and protect key sectors or projects likely to be under primary and secondary sanctions—should the various sanctions lists grow.

This started with the Yamal LNG project on the Yamal peninsula, a French-Russian project (before mid-2014, Total and Novatek were the majority shareholders). Although current American sanctions do not affect the gas sector, the development of Yamal LNG was seriously jeopardized because Gennady N. Timchenko, a businessman allegedly close to Vladimir V. Putin, was subject to American sanctions, and, as a consequence, had difficulties functioning under U.S. capital market restrictions.

In 2015, sources of funding quickly decreased, making the financing of a multi-billion-dollar investment chain difficult. At the same time—in early 2016—the risk of external financing became the primary problem. After an initial period of confusion, during which the shareholders' aim was to avoid the worst, Novatek implemented corrective measures related to trying circumstances, with the support of the Russian state and Russian banks.

These actions turned the ailing financing strategy around. The company raised capital through equity financing and did not incur debt in USD, but in RUB, EUR, and RMB. New institutions like the Export Bank of China and the China Development Bank provided some of these credit lines. China also provided technology, which has led to a progressive "Sinicization" of the project. Russian efforts bore fruit. The project was finished one year ahead of schedule, and a vessel carrying gas from Yamal reached the United States in January 2018.

Russia, in a way, has been able to look to previous mistakes made by Iran's partners in order to avoid making the same ones and increase the chilling effect.

By saving a project deemed strategic by both the Russian government and Novatek, Russia has found a way to partially decrease U.S. monetary power, reduce the influence of coercive diplomacy on the Russian state, and protect its LNG sector from hypothetical additional sanctions.

The process of delinking Russian projects from the U.S.-centric financial system has continued. Rosneft announced that its export contracts would be henceforth denominated in euros. Novatek also confirmed that most of its contracts are denominated in euros. Russia's adaptation has led the euro to become an increasingly important currency for energy commerce.

Such a situation has also laid the foundations of a Russian commercial strategy that accords with the country's foreign policy: reducing American influence worldwide whilst maintaining connections with Asia and Europe (like Rouhani's supporters), and strengthening state control over Russian energy sector.

Russia's adaptation hinges primarily on four main axes:

- launching new marketing choices towards Asia, specifically China, Japan, and South Korea;
- increasing cooperation with non-Western institutions;
- implementing import replacement measures aimed at tackling the limited access to foreign technologies that are necessary for the development of unconventional and offshore oil reserves, deep water exploration, etc.; and
- organizing the 'de-dollarization' of strategic projects in order to circumvent secondary sanctions while increasing the role of the European currency in the energy sector by (i) pushing companies to sell goods under non-USD contracts or equipment under non-US delivery contracts, and (ii) by raising debt in non-USD currency.

Put another way, this process amounts to a forced diversification of Russia's financial and energy portfolios in the context of rising tensions with the Washington. In a way, the United States has forced Russia to reconsider its comfortable, but quite archaic *modus operandi*. This on-going process has to be fine-tuned if Russia wants to maintain a leading position in the oil and gas sector.

Total Effect

In 2018, Novatek mainly invested in the development of the Salmanovskoye (Utrenneye) field (a resource base for Arctic LNG 2), front-end engineering design for its Arctic LNG 2 project, and gravity-based platforms. This led to a significant increase in its capital expenditures, which did not prevent the company from announcing, in September 2019, that it will launch a new multi-billion-dollar project Arctic LNG 2 on the Gydan peninsula—expected to become operational by the end of 2022.

This is in line with the tendency observed in the Yamal LNG project, Novatek's success story (tax holidays helped, obviously). Along with Yamal LNG, the two aforementioned plants will produce around 36 million tons of LNG annually.

This production confirms at least three things. First, Russia has a long-term goal of becoming a major LNG producer and of catching up with other LNG producers; second, Moscow's imperative to internationalize gas exports; and third, French involvement (Total has acquired a direct working interest of 10 percent in the project).

Novatek has benefited from what might be called the "Total effect," defined as a sanctioned country's ability to attract international partners despite those sanctions as well as the inability to access American debt and equity markets for long-term financing. This effect is demonstrated when an international oil company from a country imposing sanctions is still able to successfully invest in a sanctioned country. Henceforth, this will be a major psychological factor that should not be underestimated.

So far, Total has a direct 10 percent interest in Arctic LNG 2 alongside Novatek (60 percent), the Chinese CNOOC (10 percent), the Chinese CNPC (10 percent) and the Japanese Mitsui-Jogmec consortium, Japan Arctic LNG (10 percent). Officially, Russian law does not allow a foreign company to acquire more than 25 percent ownership of a project. Since Total also owns an 11.6 percent indirect participation in the project through its 19.4 percent stake in Novatek, thus an aggregated economic interest of 21.6 percent in the project if Novatek retains 60 percent of Arctic LNG 2 percent.

The Arctic LNG 2 demonstrates that, from an economic perspective, the most important preoccupation of a sanctioned country is a diversification of the portfolio of economic partners. Some European companies are now ready to operate within these new rules—at least in the gas sector, as the oil is too risky relative to American policy and law.

It is much easier to de-dollarize gas projects than oil projects. Even if LNG trade has rapidly expanded and connected hitherto disparate and isolated markets (resulting in more flexibility and liquidity), gas is not a global commodity, unlike oil. Natural gas is still dominated by regional and local forces. Consequently, gas prices still vary between and within regions, whereas oil prices tend to change globally. Furthermore, in the gas area it is possible to issue invoices denominated in USD, but also in EUR, RMB and GBP.

In this emerging environment, the adaptability of American companies is decreasing. ExxonMobil is a prime example. In 2012, ExxonMobil and OAO Rosneft entered into a $3.2 billion join-venture agreement. Both agreed on developing resources located in the Black Sea (deep-water drilling) and the Arctic's Kara Sea, as well as onshore assets in Siberia.

This was part of the Russian strategy having to develop greenfields, especially shale oil. Seen from the American perspective, this deal was part of potential future growth, even if the Russian market was not the largest part of Exxon's oil and gas production, and the exploration and production in the Arctic was challenging. Like many Western energy companies investing in Russia like Total, ExxonMobil criticized sanctions. Some projects were frozen after the introduction of sanctions. In July 2015, the company asked the U.S. Office of Foreign Assets Control (OFAC) to make a few exceptions. It was denied. In 2017, Exxon applied for a waiver from American sanctions on Russia. It was denied again.

In 2018, Exxon ceased all projects in the Russian Arctic for two main reasons. Firstly, some of these projects turned out to be too expensive, and (consequently) not competitive enough. In a sense, American sanctions provided the company with a "justification" for withdrawing. Secondly, Exxon had limited room to maneuver. It is, after all, an American company. Its main market is the American market. The company benefits from the American financial system. If the company had stayed in Russia, it would have had to do what European companies are doing: changing the currency, working with Chinese companies, signing credit lines with Russian and Chinese financial institutions, and getting political support from the Russian government. There is also a significant risk of a fine for violating sanctions. (This actually happened in 2017, although the fine was very small).

EU Intervention

Brussels made it immediately clear after the American withdrawal from the JCPOA that the European Union will seek to protect its companies investing in Iran whilst seeking to salvage the nuclear deal at a time when America and the EU were drifting apart. In August 2018, for instance, the EU updated its "blocking statute" (originally adopted in 1996) in support of the Iran nuclear deal.

As long as Tehran complied with the JCPOA, Brussels wanted to encourage European companies to keep trading with Iran, going so far as to ban EU-based businesses from "complying with US sanctions."

As long as Tehran complied with the JCPOA, Brussels wanted to encourage European companies to keep trading with Iran, going so far as to ban EU-based businesses from "complying with US sanctions." In other words, the EU gave its companies a mandate not to change their behavior. To do so, it even amended some laws listed in the Annex of the aforementioned regulation.

The main objectives were to: (i) remove obstacles for the European Investment Bank to finance activities in Iran, (ii) strengthen sectoral cooperation (including financial assistance), and (iii) develop relations with the Iranian Central Bank in order to make one-off bank transfers possible (the only way to ensure payments to Iran). The list goes on.

The blocking statute is no silver bullet, however. One of the weaknesses was that the enforcement of the regulation is left to EU member states.

In addition to the blocking statute, the EU—led by Germany, the UK, and France—tried to work on the implementation of the 'Special Purpose Vehicle' (SPV), which came into effect in November 2018. From an EU perspective, it represented the last chance to keep Iran inside the JCPOA agreement. Theoretically, the SPV should facilitate payments related to Iran's exports, including oil, and imports. It would work as a barter system in order to avoid the American financial system. At that time, Brussels was trying to embrace a kind of de-dollarization process.

EU leaders recognize that the Union's security depends on political stability in the Middle East and believe that American policies directly undermine that agenda

Maximal pressure exerted by the United States on Iran forced Asian and European companies to withdraw from both gas projects in the country—a sign that the United States still is a hegemon in the energy sector. For example, both Total and Siemens scaled back their business operations, and then left completely. European firms are now suffering from what had once been the immense usefulness of the dollar-based system. The disappointments associated with the inability of the SPV to function effectively as a means to maintain the agreement with Iran reveal a gap between Europe's capabilities and its geopolitical ambitions.

Greater EU Coherence?

Unilateralist and isolationist trends in American foreign policy that had been building for more than a decade were made manifest in the Trump presidency. Trump did not create these trends: in this context, one must emphasize that his approach represents not an aberration but a culmination.

The appetite for withdrawal from the complexities of world politics has, moreover, a long tradition in the United States, including the years before World War I when the country sought to insulate itself from instability in Europe. In this sense, the years after World War II are far more unusual than the current trajectory.

America's trade conflicts with much of the outside around the world, including with the EU, have undermined the global trading system. The over-use of U.S. financial sanctions has not only alarmed companies, but has also called into actions many member-state governments and EU institutions to enact measures designed to limit their economies' exposure to the U.S.-based clearing system that creates such tremendous vulnerability for literally every country in the world that is not the United States.

Increasingly, EU leaders recognize that the Union's security depends on political stability in the Middle East and believe that American policies directly undermine that agenda by the use of destabilizing tactics in the region—particularly Washington's maximum pressure strategy towards Iran. The refugee crisis has already created deep divisions within the EU. An unstable Iran, made more likely by American belligerence, is contrary to European interests.

Once upon a time, European policymakers and executives worried that Russia was a necessary but often unreliable and unpredictable partner. Today, however, it is the United States that seems to be more unreliable.

Seen from the perspective of the EU and its member states, America's internal divisions have also become difficult to understand. The American president may, for example, impose sanctions by signing an executive order. The latter is at the initiative of the executive, contrary to recent American law.

Consider 2017's CAATSA, which contained provisions with regards to Russian-related sanctions. Specially, consider Title II—called Countering Russian Influence in Europe and Eurasia Act, or CRIEEA). One legislative intent of this law was to make the removal of sanctions more complicated: specifically, to reduce Donald Trump's capacity to revoke, modify, and/or make exceptions from Russia-related executive orders.

Such a situation reflects the current tug of war that is taking place inside the United States between opposing camps, such as Republicans and Democrats, but also pro-Trump and anti-Trump actors more broadly. The more America's politicians feel that the country's executive power is ready to take decisions on a whim, the more sanctions against Russia tend to become difficult to abolish or modify, while fostering the introduction of sanctions on legislative initiative.

The Trump Administration easily reintroduced sanctions against Iran with an executive order against the will of numerous politicians. Europeans are not ready to bear the consequences of internal American divisions, given the fact that the consequences of these divisions could threaten both European business and security over the longer run.

Once upon a time, European policymakers and executives worried that Russia was a necessary but often unreliable and unpredictable partner. Today, however, it is the United States that seems to be more unreliable. Even European banks, firms, and governments that seek to comply with American sanctions regimes find that OFAC responds to requests for clarification too slowly and sometimes not at all. The answers are vaguely worded and thereby create the possibility for uncertain post-hoc interpretation.

The majority perceives America as a country controlling EU foreign policy through EU-U.S. economic interdependence.

As the Transatlantic alliance has frayed, Europeans have increasingly demanded a more coherent and effective EU foreign policy. According to a study published in September 2019, voters in the EU believe "that there is a growing case for a more coherent and effective EU foreign policy in a dangerous, competitive world," while "they want to see the European Union come of age as a geopolitical actor and chart its own course."

Trust in the United States has been broken, and recent decisions taken by the Trump Administration during the pandemic are unlikely to restore it. EU citizens expect one specific thing from Brussels: the EU must demonstrate that it controls it foreign policy despite the bloc's economic interdependence with the United States.

This does not mean that the European population supports the easing of EU sanctions on Russia. According to the same study, the majority of European voters (more than 50 percent) view "the EU's policy on Russia as either balanced or not tough enough." Furthermore, the Nord Stream 2 project remains a cause of disagreement inside Europe. As with Iran, however, significant American pressure may lead to greater internal EU cohesion on issues like this. The majority perceives America as a country controlling EU foreign policy through EU-U.S. economic interdependence. Europe is in an embarrassing position due to the asymmetric interdependence with the U.S. economy, the size of U.S. markets, and the global role of the U.S. dollar.

All of this might even have reinvigorated the European project in the context of energy. History has shown that EU member states can work together more easily on energy issues, despite evident challenges. The European Green Deal might become the emerging unifying theme to re-launch the European project and make Europe a fully-fledged geopolitical actor. So far, it is not clear if the project might be reshaped or not. It is hard to properly evaluate the consequences of the COVID-19 crisis for the fate of the European Green Deal, but it seems that, at present, the main question inside the EU seems to be the following: "How to make our Green Deal a key component of the reconstruction of European economies?"

Nevertheless, this does not prevent Brussels from examining options to ensure its Green Deal reaches beyond the EU's borders. It certainly does represent a unique opportunity, since the European Green Deal might:

- increase European soft power worldwide, eventually bringing about a global energy transition;
- enable the emergence of a legal framework that protects EU companies beyond its external frontiers;
- provide for the establishment of a commodities trading platform in the Eurozone territory (especially in the electricity sector);
- encourage the euro-ization of energy contracts and promote financial energy storage contracts in euros;
- stimulate massive investment in research and development (making Europe competitive, innovative, and less dependent on foreign technology); and
- create a new system able to decrease inequalities among EU member states and within each EU member state.

The European Green Deal has a huge potential, but the implementation challenges are numerous. EU institutions have understood that a solid currency needs a solid banking system (which the Eurozone does not yet have). Currently, the Eurozone must find a way to overcome one of its greatest challenges, namely the poor state of the banking systems in a number of European markets (e.g., Italy). Such a situation could leave the euro exposed to an eventual downturn, which could lead to even more negative interest rates and a sharp decline in the value of the common currency. This could, in turn, lead to a rise on the nominal price of euro-priced commodities or result in a hit to commodity sellers.

Le Divorce

The United States and Europe are divorcing because of their own internal contradictions, and Tehran and Moscow have become metaphors for this acrimony. Iran and Russia are the text rather than the sub-text of this rupture.

Since Trump's election to the presidency of the United States, sanctions are not only seen as the expression of Washington's preferences and whims, but also as an instrument of American economic warfare, which attracts the ire of historic allies like the EU.

One of the main challenges revolved around the question of economic interdependence and energy security in particular. America-Russia and America-Iran trades were and remain relatively unimportant, and certainly the United States relies little on its economic relationship with Russia and Iran.

Furthermore, this is happening at a time when the EU is "pressurized" by multiplying problems. The economic situation is fragile and the future of the EU currency is still unsettled. Further economic degradation would work in favor of extremist and Eurosceptic parties. And so on and so forth. Consequently, interferences in European economic activities and European energy security are not always well perceived, and tend to increase tensions inside the Union.

So aggressive and thorough American sanctions cost the economy of the United States almost nothing. But an overuse of them might have a significant cost over the long run. The greatest threat is the progressive isolation of the United States and a continued American decrease in influence in the context of an emerging multipolar world with different financial and economic powers.

Another way of formulating the issue is to ask whether secondary sanctions will continue to work as well in the future, as the international system frays and fragments. And also to ask whether they will be reconsidered in an era of collapsing oil prices.

If the EU wants to build up its "resilience" against secondary sanctions, it requires significant enhancements of coordination between different sectors of the economy like energy, business, finance, diplomacy, and defense. This represents a significant challenge for the EU, which has not yet worked on this scale. The autonomization of Europe could increase its room to maneuver, but as long as member states do not act in unison, this resilience will never materialize.

Europe is on the verge of redefining its energy policy around one common goal: climate protection—with no realistic expectation of cooperation with the United States. The success of the European Green Deal depends on the decisions that will be taken in the time ahead by the European Commission, the European Central Bank, and EU heads of state and government. So far, the EU has overpromised and under- delivered. This is a make or break moment if Brussels wants to show the opposite.