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Eighth sanctions package: Which side will be the economic loser?

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Introduction

Since February 24, 2022, Russia's invasion policy towards Ukraine has been tried to be prevented by several series of sanctions by the European Union. These sanctions include trade, travel, asset freezes, oil, transport, and SWIFT bans. Since the start of the war, 7 sanctions packages have been presented and many of them are being implemented.

In response to Russia's invasion policy against Ukraine, the European Commission presented the eighth package of sanctions covering visa issues and asset freezes. This package was proposed by Estonia at a cabinet meeting as a serious and preventive step to Russia's aggression against Ukraine. It should be taken into account that Estonia, as it has done in this country, also demands the imposition of additional sanctions against Russia in the Schengen area. In addition to the previous sanctions - trade, energy, economic - it wants to apply extended sanctions even to individuals and enterprises. As a result of all this, as of August 18, 2022, entry is no longer possible for Russian citizens with a Schengen visa who wish to enter Estonia for tourism, business, culture, and sports purposes.

On September 6, the European Commission published its proposals for suspending the union's 2007 visa accord with Moscow in order to restrict the number of Russian visitors permitted in the bloc.

Less than a week the resolution was supported by EU foreign ministers at an informal conference in Prague, and rules were suggested by the Commissioner for Home Affairs. It was emphasized that being a tourist in the EU area is not a basic right. There is now no foundation for trust or a special connection with Russia.

These sanctions regarding the full suspension of visa facilitation were published on 9 September 2022 and it was planned that in action as of 12 September 2022.

The list of sanctions is as follows:

- An increased visa charge: For all applicants, the visa fee will rise from €35 to €80.
- Increased processing time: From 10 to 15 days will now be the typical period for consulates to make a decision on visa applications. In particular, in situations when a closer examination of the application is required, this time frame may be extended up to a maximum of 45 days.
- More stringent requirements for multiple-entry visas: Applicants can no longer easily get visas good for the Schengen region's numerous entries.
- A lengthier list of supporting papers: When applying for a visa, applicants must provide the entire list of supporting documents. The streamlined list listed in the Visa Facilitation Agreement will no longer be advantageous to them.

The measure also makes it more difficult for Russians to obtain visas that allow for multiple entries into the Schengen area and adds more requirements to the application process. In the meanwhile, Russian passports issued in seized territories would not be accepted as legitimate identification.

Although it was emphasized that member states should be free to deny visa applications for anyone who may constitute a threat to internal security, and it was noted that procedures will guarantee that journalists and Russians traveling for family reasons will be safeguarded.

There has been conflict amongst the capitals of Europe over the subject of the Russian visa restriction. According to Kyiv's demands, nations headed by the Baltic states, the Czech Republic, and Finland advocated for a complete travel restriction, while nations led by the Federal Government of Germany opposed it since it would prevent Russian opponents of the Russia-Ukraine war from entering the EU.

According to the European Commission's department in charge of migration and home affairs, there are presently fewer than a million valid visas for Russian citizens; the plan would enable the member states that issued them to "check thoroughly" them.

A huge part of Europe's energy supply is composed of Russia. Thus, Europe gets 40% of its natural gas and 25% of its oil from Russia. The EU plans to reject buying 92 percent of Russian gas until the end of the year in addition to a string of harsh penalties, which is made worse by the challenging political environment. Ruble depreciation is impacted further by declining currency inflows. The effects of the sanctions on the Russian economy have been assessed over the long run, as well as in the short term and in the medium term.

A brief glance at the Schengen agreement between Russia and the EU

On May 25, 2006, the Schengen Agreement was signed in Sochi between the Russian Federation and the European Community on the facilitation of the process of issuing visas to the citizens of the Russian Federation and the European Union. This contract came into force on June 1, 2007. The main purpose of the agreement was to facilitate the establishment of important relations in areas aimed at the sustainable development of economic, humanitarian, cultural, scientific, and other relations.

The purpose of the Schengen agreement covers:

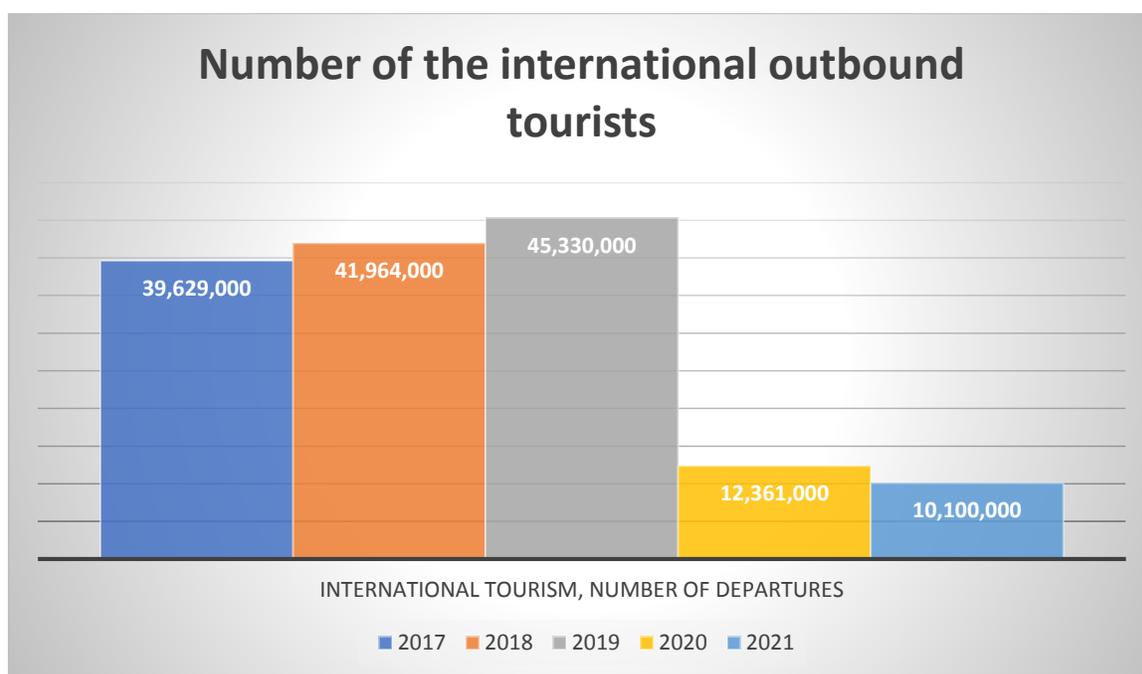
- Any member state of the European Union is referred to as a member state, with the exception of Ireland, Northern Ireland and the United Kingdom of Great Britain, and the Kingdom of Denmark;
- A resident of a Member State as indicated in item (a) is referred to as a "citizen of the European Union";
- "Citizen of the Russian Federation" refers to a person who has obtained or possesses Russian citizenship in accordance with national law;
- "Visa" refers to an authorization/permission granted by a Member State or the Russian Federation, or a decision made by them, that is necessary in order to:
 - entry for a stay that will not exceed a total of 90 days in that Member State, several Member States, or the Russian Federation,
 - entry for passage via the Russian Federation, that Member State, or a number of other Member States.
- "Legally residing person" is defined as:
 - for the Russian Federation, a member of the European Union who obtained a residence permit, an educational or work visa, or a license for temporary stay for a duration of more than 90 days in the Russian Federation,
 - in the case of the European Union, a resident of the Russian Federation who has been granted permission or a right to remain for a period of time beyond 90 days on the territory of a Member State under Community or national law.

The impacts of sanctions on Russia and the European Union

Due to the fact that Russian nationals can enter and exit the Schengen Area several times with a single 90-day visa, fewer than one million visas were granted. Prior to the COVID-19 outbreak, the Schengen Area's member states annually granted over 500,000 new Russian visas.

At least 10 million Russians are reported to have valid short-stay Schengen visas. As of 5 September, Estonia has given 49 804 valid visas to Russian nationals, of which 47 998 were for short stays and 1805 were for extended stays. In 19 285 cases, travel is done for leisure, and in 20 389 cases, it is done to see family and friends.

Graph 1. Number of departures of the Russian Federation



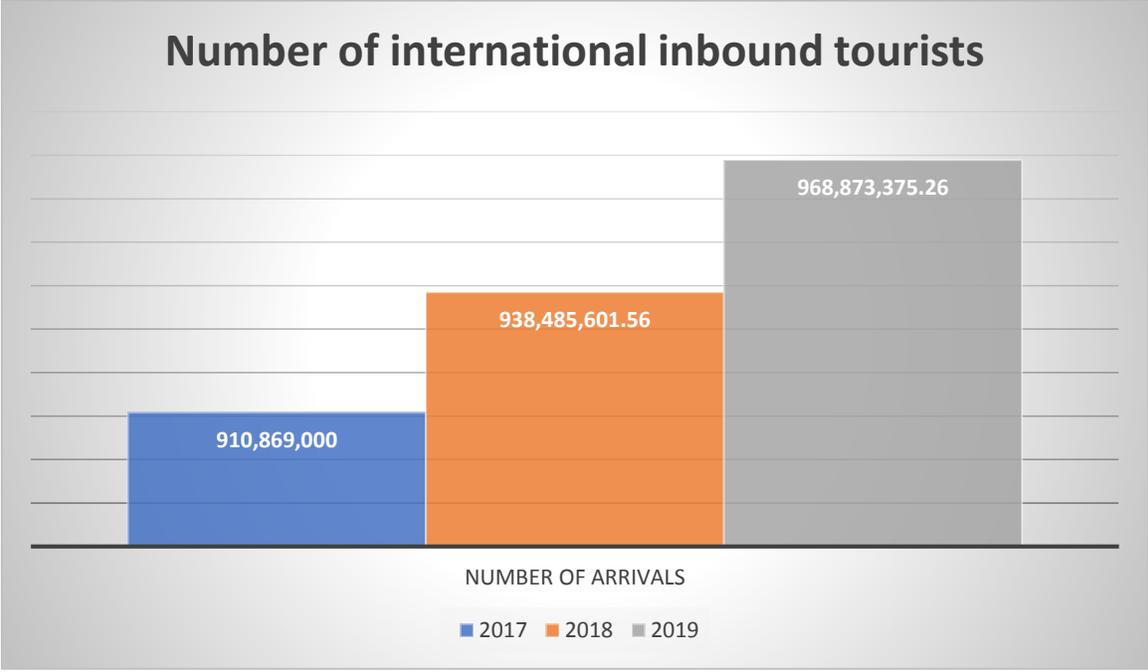
Source: World Bank, 2022

Graph (1) shows the number of outbound tourists from the Russian Federation from 2017 to 2021. As can be seen from the graph, the number of tourists who went abroad the most was 2019 with 45,330,000 people. This is the highest indicator in the last 5 years. Although the indicator showed a gradually increasing trend in 2017 and 2018 with 39,629,000 and 41,964,000 respectively, however, it fell sharply to the bottom and downed to 12,361,000 almost threefold in 2020 because of the outbreak of COVID-19. In 2021, the decreasing trend 2020 continued and it became 10.1 million. Shortly, the number of departures of the Russian Federation is a downward trend.

Graph (2) shows the number of tourists arriving in the European Union in 2017, 2018, and 2019. As an overall trend, it is clear that the number of tourists coming to the European Union was gradually increasing over the years. In 2017, this indicator was about 911 million, in 2018 it

increased slightly to 938.5 million, and in 2019 it was 969 million. In conclusion, the number of tourists coming to the European Union has increased through the years.

Graph 2. Number of arrivals of the European Union

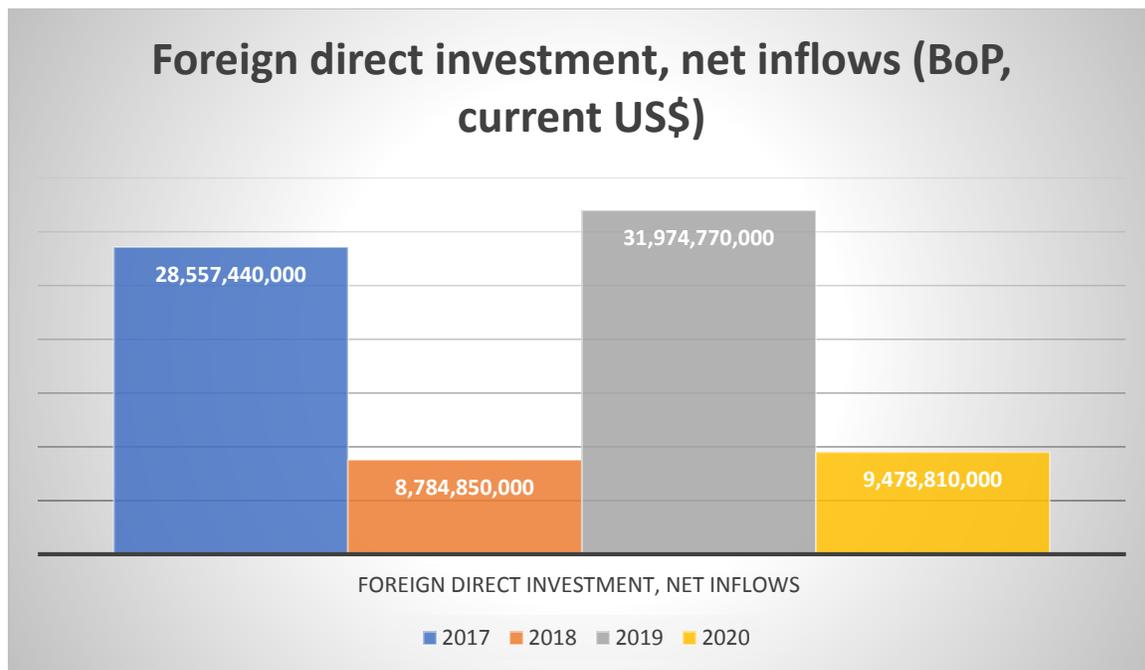


Source: World Bank, 2022

In the first half of 2022, German consulates in Russia issued 14,000 visas, according to the Federal Foreign Office of Germany. That number was approximately ten times higher in 2019, prior to the epidemic and the war in Ukraine. This year, fewer Russian tourists could be seen strolling along the Champs-Élysées since they are unable to enter France directly from EU nations. This implies that Russians may travel by plane from Moscow to Paris with an intermediate stop in Istanbul, but they cannot go by plane from Helsinki to Paris.

Over 39 billion dollars were spent on leisure travel in Russia in 2021, almost 10 billion dollars less than in 2019. In 2021, the cost of business travel was estimated at 6.1 billion dollars. A decrease in the number of tourists to Europe will be accompanied by an increase in income from the Visa fee. Looking at the aspect of Russians, the tensions that will be faced by those who go on vacation from Russia to Europe will increase.

Graph 3. Foreign direct investment, net inflows (BoP, current US\$)



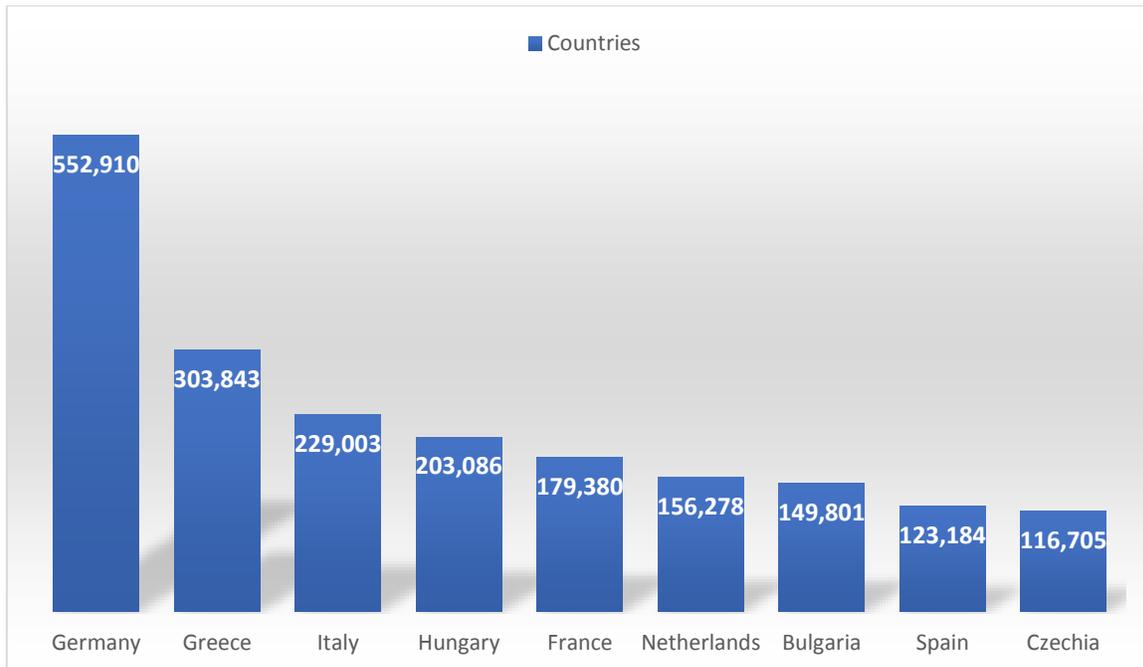
Source: World Bank, 2022

Graph (3) depicts the amount of the Foreign Direct Investment of the Russian Federation from 2017 to 2020. From the graph, there is a dramatic fluctuation in the FDI trend. So, it is at its highest and lowest level with 32 billion USD in 2019 and in contrast, 8.8 billion in 2018 respectively. Net inflow from FDI was approximately 29 billion USD in 2017, while the lower level after 2017 was 9.5 billion in 2020.

Following business and investment bans naming some Russians, visa bans will further worsen the blocked relationship between the Russian Federation and the European Union.

Investment opportunities for Russians are limited. A block has been placed on the investment of Russians in Europe, which will make it difficult to take the investment from Russia out of the country to Europe.

Graph 4. EU countries expect fewer Russian tourists



Source: *schengenvisainfo*, 2022

Based on the amount of tickets planned on inbound flights between February and August 2022, it was anticipated that the European nations will lose almost three million Russian visitors in the next months.

The European countries that accept Russian citizens the most are Germany, Greece, Cyprus, and Romania, respectively. Directly, these countries will be affected by visa sanctions the most, and the number of tourism will decrease the most.

Among these 3 million potential tourists, excluding a number of Asian countries, the share of European countries is generally much higher. So, as can be seen from graph (4), based on the available statistics, the European countries where Russian citizens mostly travel are Germany, Greece, Italy, Hungary, France, the Netherlands, Bulgaria, Spain and the Czech Republic. So, while the country that will be most affected by visa sanctions is Germany, Spain and the Czech Republic are the countries that will be least affected. After Germany, the indicators of Greece, Italy and Hungary indicate that it is not easy to travel to these countries, which are popular among Russian tourists. France, Netherlands and Bulgaria are less popular destinations among Russian visitors with numbers under 200,000 people.

Conclusion

In the eighth package of sanctions presented in order to speed up the end of Russia's military aggression against Ukraine, it was soon decided that a block would be applied to the process of obtaining Schengen visas for Russian citizens. So, even before the European Commission reached an agreement, Estonia had already started implementing some of these sanctions. Apart from Estonia, the Czech Republic, the Baltic states, and Finland are considering tougher travel sanctions in line with Kyiv's demands. On the other hand, the Chancellor of Germany opposed it because it could prevent the desire of anti-war supporters in Russia to join the European Union.

The European Commission's visa sanctions against Russia affect both sides. As Azerbaijan is an oil-producing country, it will not have a special effect, only remittances can have an effect. As you can see, the number and scope of sanctions imposed on Russia are expanding. This will affect Russia in the medium and long term. It is forecasted that middle of 2023, the effects will become apparent.

When determining whether Russian persons requesting short-stay visas may be viewed as a danger to public policy, internal security, or the international relations of any of the Member States, consulates of the Member States shall use special caution.

When reevaluating current short-stay visas already granted to Russian citizens, Member States ought to take a tough stance. Member States should withdraw an existing visa if it becomes clear that the requirements for granting it are no longer satisfied, such as when it becomes clear that the visa holder now poses a security concern.

Member States should avoid awarding multiple-entry visas with lengthy validity since, given Russia's economic instability, entrance restrictions, and political events, Russian residents would eventually fail to fulfill the requirements for entering the EU. Member States ought to think about giving single-entry or shorter-term visas in such circumstances.

The EU will continue to be accessible to Russians seeking visas who are going for urgent needs, particularly family members of EU residents, journalists, dissidents, and representatives of civil society. The guidelines assist the Member States in making use of the options already available to handle such situations. According to the visa regulations, Member States may choose, for example, to lower or waive the visa price in specific circumstances, which might make it easier for journalists, dissidents, schoolchildren, researchers, and students to travel.

After all these bans, Russia with 10 million Schengen visas will face problems that are difficult to solve both economically and socially in the medium and long term. Bans in the visa regime will cause tension and strong protests from people who want to go to Europe for vacation. In the field of investment, the situation is not unlike. Blocking investment opportunities, the process of making Russian investments in Europe will be difficult.

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