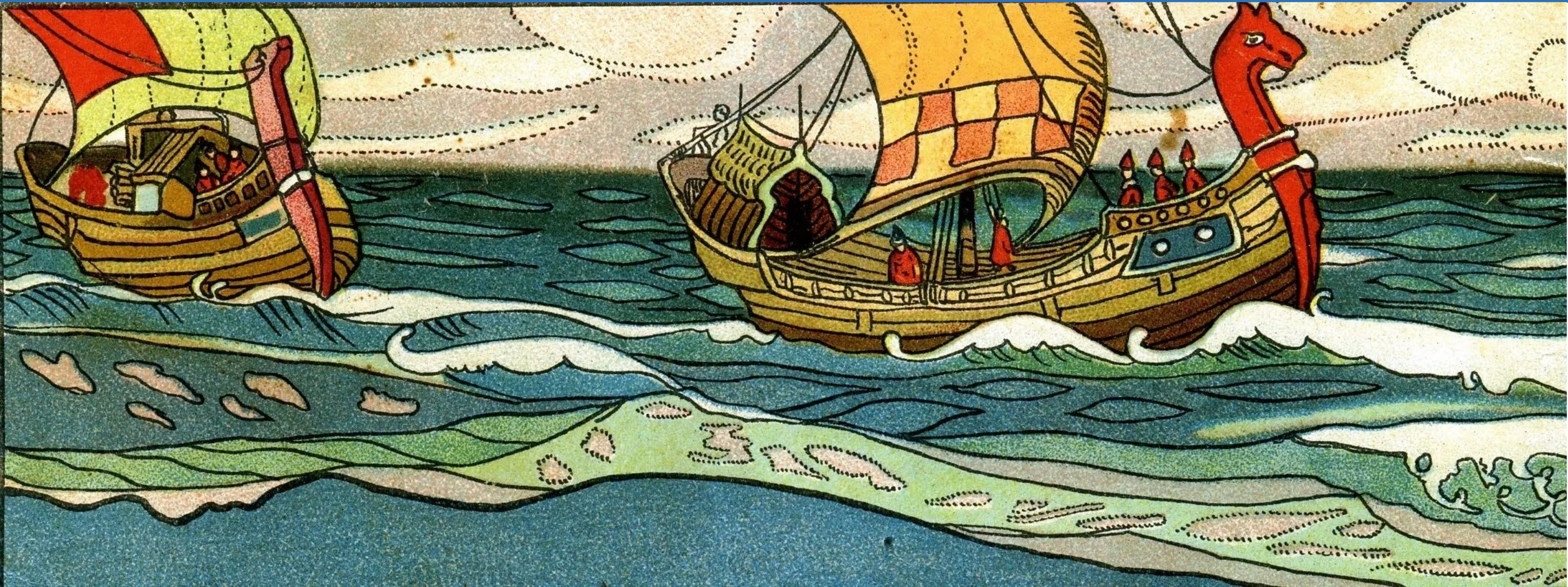
Decision to leave: Do private sanctions reinforce official sanctions?

Maxim Chupilkin, Beata Javorcik, Alexander Plekhanov and Aleksandra Peeva

European Bank
for Reconstruction and Development



Economic sanctions imposed by states are not new. What is new now is the presence of **massive private sanctions** imposed on Russia by private companies (Hart et al., 2023)

Private sanctions are **self-imposed restrictions by firms** in order to

- safeguard their reputation
- avoid secondary sanctions
- signal values to customers

More than 1,000 companies, employing over a million Russians, chose to leave Russia within a few months of the 2022 invasion of Ukraine (Sonnenfeld et al., 2022)

Announcements of private sanctions by some firms

McDonald's to leave Russia for good after 30 years

17 May 2022 · 2218 Comments

War in Ukraine

Apple suspends all product sales in Russia

By Brian Fung, CNN Business
2 min read · Updated 5:22 PM EST, Tue March 1, 2022

Chanel, Louis Vuitton, Prada, and Other Luxury Brands Suspend Business in Russia

As Vladimir Putin's war on Ukraine continues, global businesses are suspending or eliminating their activity in Russia.

EXCLUSIVE Nike to make full exit from Russia

By Mimosa Spencer, Jacob Gronholt-Pedersen and Richa Naidu
June 23, 2022 4:17 PM GMT+1 · Updated June 23, 2022

Aa

Mercedes-Benz becomes latest Western company to pull out of Russia

26 October 2022 · 740 Comments

War in Ukraine

Public pressure

Survey of 3,000 Americans, a representative sample of the US population by Hart et al. (2023)

- 61% agree that ‘***Doing business in Russia is like being an accomplice of the war***. *The company should sever its ties to Russia, whatever the consequences*’
- Only 30% agree that ‘*it is not a company’s role to decide what is right and what is wrong*’ and that this task should be left to the government
- “**only a minority** of respondents **would agree** with the Milton Friedman adage that **‘*the business of business is business*’**”

Some firms remained and potentially benefitted from a less competitive market

[redacted]

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Austria's Raiffeisen faces US wrath over Russian business

May 16, 2024 - 07:59 5 minutes

LONDON/FRANKFURT (Reuters) -The U.S. Treasury has warned Austria's Raiffeisen Bank International (RBI) that its access to the U.S. financial system could be restricted because of its Russian dealings, according to a person who has seen a letter detailing the threat.

NEWS POLITICS

French company Auchan supporting Russia's war effort in Ukraine, report says

Investigation says some Auchan employees in Russia collected donated goods that were then sent for free to the frontlines.

SHARE

The report immediately triggered reactions from the Ukrainian government | Attila Kisbenedek/AFP via Getty Images

FEBRUARY 17, 2023 4:26 PM CET
BY GIORGIO LEALI

[redacted]

This paper

Have private sanctions reinforced the impact of the official sanctions?

What is the price of values?

Focus on sanctions imposed on Russia after its full-scale invasion of Ukraine in Feb 2022

- This episode stands out in terms of its comprehensive nature and the size of the target economy (11^{th} largest economy in 2021 at market exchange rates)
- 45 participating countries
- **Export** and import **sanctions**, financial sanctions with major banks disconnected from SWIFT, part of Central Bank reserves frozen

Research questions

Did Western MNCs **follow their public announcements**?

- Implications for import volume

Did **sanction circumvention** take place?

- Implications for intermediated trade

What is **the price of values?**

- Implications for flows of non-sanctioned goods

Trade data

Transaction-level data on Russia’s imports **2016-2023**

- importing firm, HS6 product, **trademark**, origin country, **trading** country, month
- 12 million + import records in 2022
- 74,000+ unique importing firms

Using trademark information to match **public announcements (private sanctions)** of trademark owners

Data on **private sanctions**

Sonnenfeld et al. (2022, 2023) look at 1,500+ firms with “substantial exposure to Russia” and their public announcements, annual statements, official filings

Criteria for inclusion:

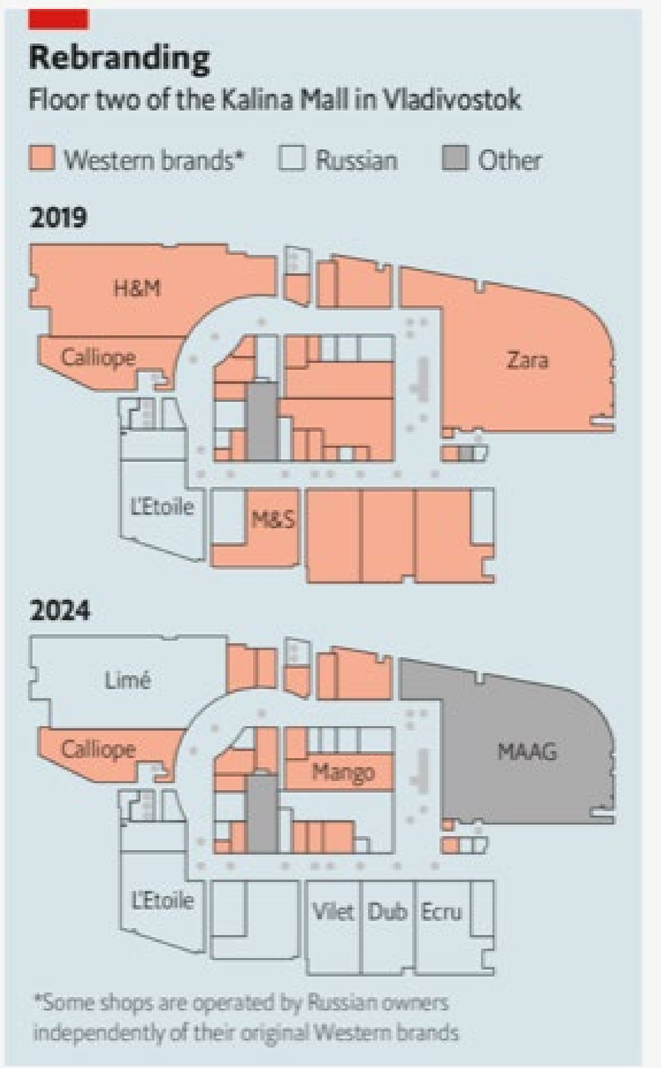
- Companies with verifiable operations in home country, Russia/Belarus and at least 1 other country

- 51%+ ownership outside Russia / Belarus

- Companies with verifiable recent active business presence in Russia: investment, selling, sourcing or manufacturing

- Global revenues > US$ 100 mn in at least 1 recent year

- Russia accounting for ca. 1%+ of global revenue



Matching trade data with data on private sanctions

Analyzing **467,907** standardized **trademarks records**

Out of 1,587 companies on Sonnenfeld et al (2023) lists, 1,159 can be matched to standardized trademarks

- Matched to 1,769 standardized trademark records, as owner can be matched to multiple records (eg Hyundai / Kia)

To identify comparable trademarks of neutral multinationals, we look at top 1,000 trademark records

Final dataset of **1,960 trademarks covering 35% of imports in 2016-2023 (55% of trademarked imports)**

- **1,657 Western trademarks** (29% of total imports and 45% of trademarked imports)
- **112 neutral trademarks** from Sonnenfeld et al. (2023) lists + **191 other major neutral trademarks** (6% of total imports and 10% of trademarked imports)

Companies on Sonnenfeld et al. lists not matched to import data are primarily in services

	Not matched	
	Number	Per cent
Banking & Finance	95	22.20
Tech & Software	72	16.82
Transport & Logistics	52	12.15
Legal & Consulting	48	11.21
Media & Entertainment	46	10.75
Associations & Non-profit	35	8.18
Goods Exporter	30	7.01
Hospitality & Retail Services	25	5.84
Energy & Natural Resources	15	3.50
Industrial & Engineering	10	2.34

Data on **private sanctions:** Classification of announced policies

Withdrawing:
Withdrawing from the market – 470 (Mercedes, Toyota, HP): *Making a clean break/permanent exit from Russia or and/or leaving behind no operational footprint*

Scaling back:
Suspending operations inside – 505 (Boeing, Hyundai, Apple): *Suspending almost all operations without permanently exiting or divesting*
Scaling back – 159 (Skoda, General Electric, Linde): *Suspending a significant portion (but not all) of their business in Russia*

Buying time:
Buying time – 370 (Airbus, Bosch, Philips): *Pausing new investments/minor operations in Rus but largely continuing substantive business*
Digging in – 153 (MSI, Liebherr, Mitsubishi): *Largely doing business-as-usual*

Base group:
Neutral excluding generics – 303 (112 also classified in Sonnenfeld et al (2022, 2023): Huawei, Lenovo, Xiaomi;
191 additionally drawn from top-1,000, not included in Sonnenfeld et al (2022) and confirmed as neutral by checking domiciliation of the owner: Chery, Great Wall, Sitrak)

Top Western trademarks (owners in sanctioning economies) and neutral trademarks, by import volume

Western	Neutral
boeing	huawei
airbus	lenovo
apple	chery
kia	land rover
hyundai	xiaomi
samsung	redmi
mercedes	great wall
toyota	faw
bmw	sitrak
volkswagen	shacman

Sanctioning Economies

European Economic Area

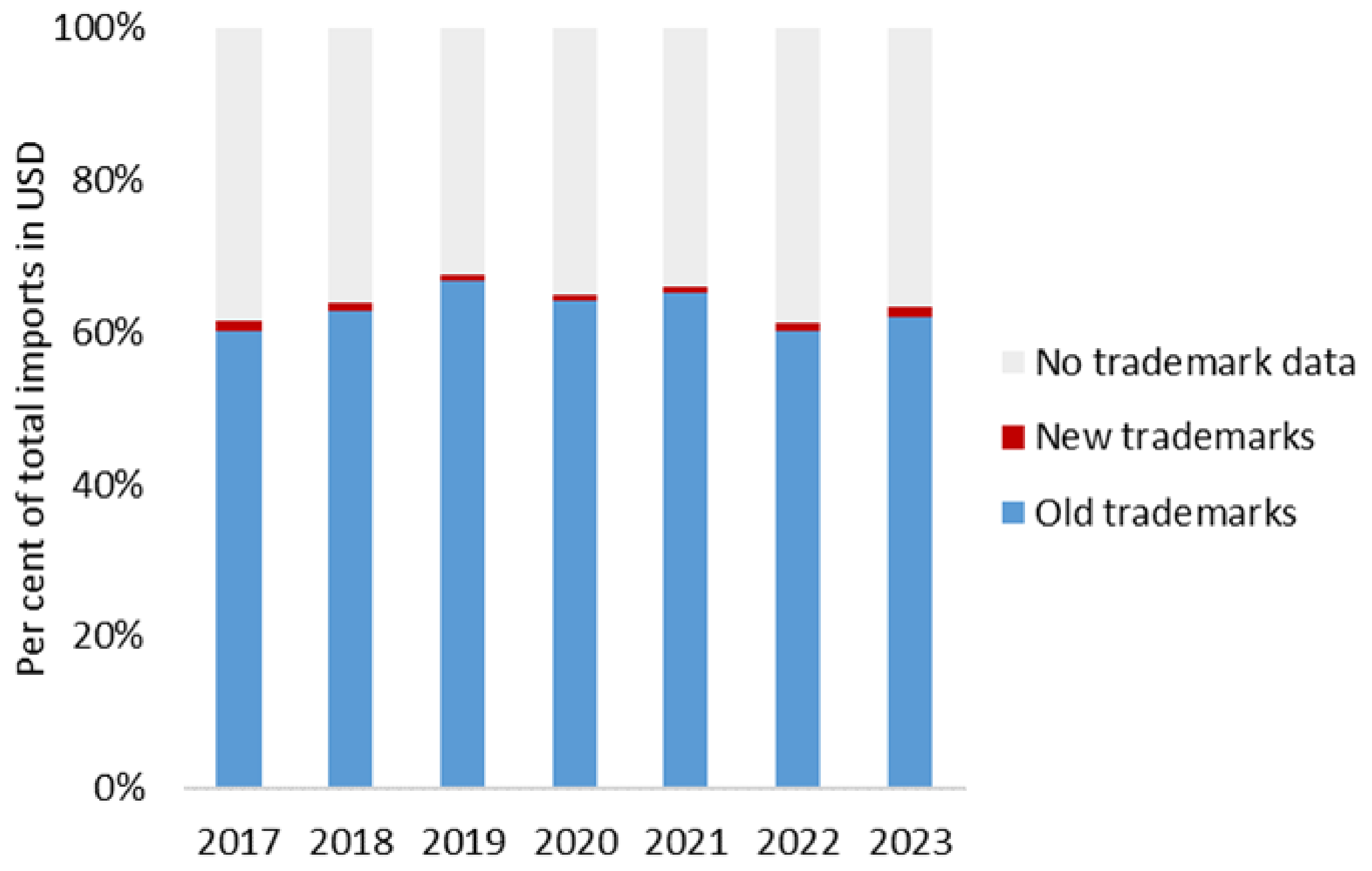
Austria	Belgium	Bulgaria
Croatia	Cyprus	Czech R.
Denmark	Estonia	Finland
France	Germany	Greece
Hungary	Iceland	Ireland
Italy	Latvia	Liechtenstein
Lithuania	Luxembourg	Malta
Netherlands	Norway	Poland
Portugal	Romania	Slovak R.
Slovenia	Spain	Sweden

Other

Albania	Australia	Canada
Japan	Monaco	Montenegro
New Zealand	North Macedonia	Singapore
South Korea	Switzerland	Taipei China
Ukraine	United Kingdom	United States

Source: Russia customs statistics and authors' calculations.

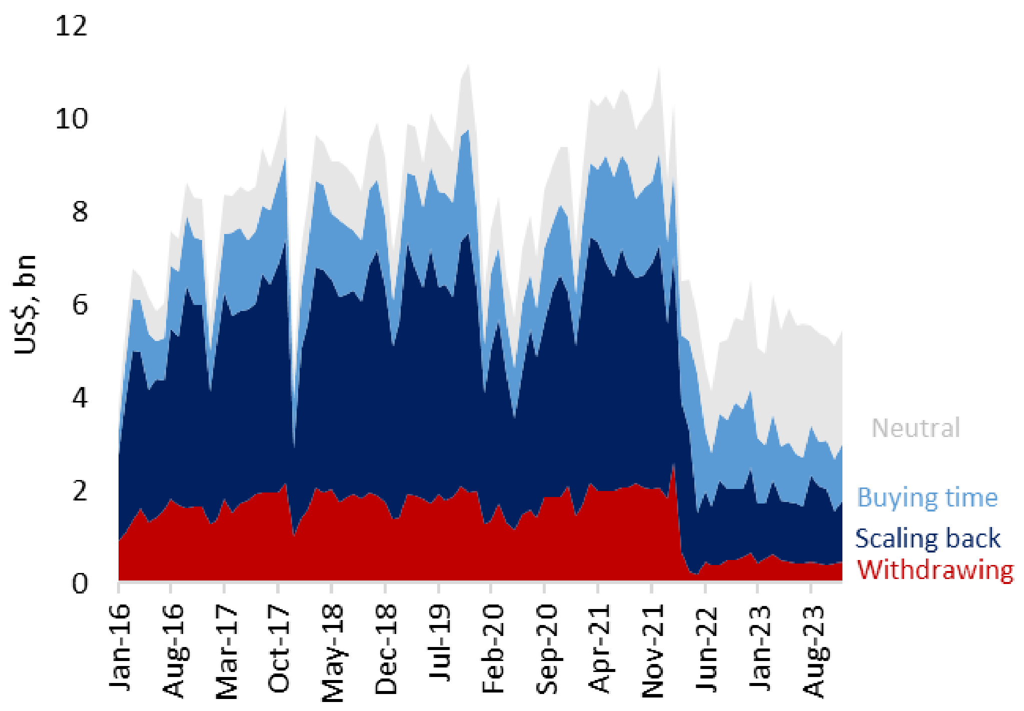
No meaningful compositional changes: Stable share of generics; new trademarks account for <1.5% of trade in 2022-23

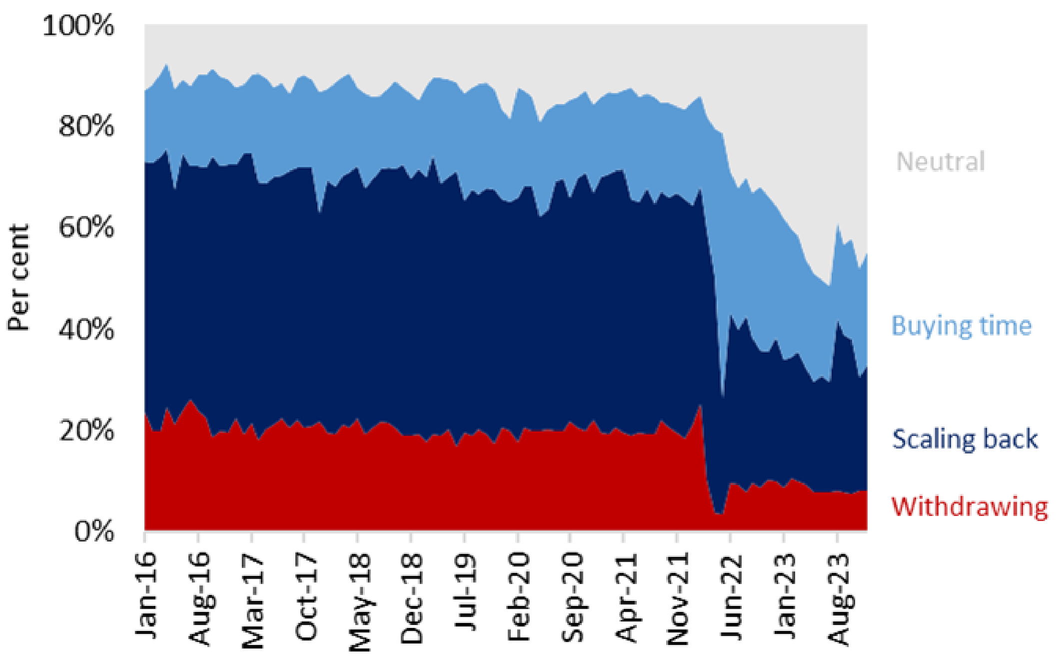


Source: Russia customs statistics and authors' calculations.

Did Western MNCs follow their public announcements?

Total imports into Russia





Source: Russia customs statistics and authors' calculations. Sample is restricted to imports where the attitude of the trademark owner to serving the Russian market is defined.

Did Western MNCs **follow their public announcements**?

Compare trade flows of goods bearing TMs of owners with **different stringency of private sanctions**

- buying time (523)
- scaling back (664)
- withdrawing (470)

to baseline category of 303 neutral TMS (owners from non-sanctioning countries)

$$Log\ Trade_{prt} = \beta\ PostSanctions_t * TrademarkType_r + \alpha_{pr} + \alpha_{pt} + \epsilon_{prt}$$

p denotes HS6 product
r denotes trademark
t denotes month

Greater drop in imports of goods with TMs under **more stringent private sanctions**

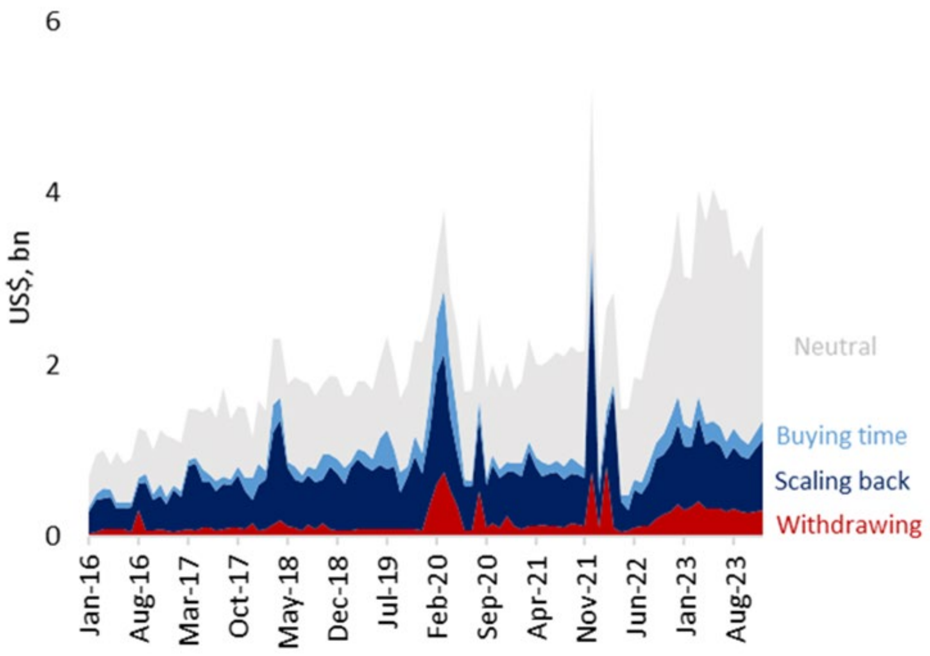
$$Log\ Trade_{prt} = \beta\ PostSanctions_t * TrademarkType_r + \alpha_{pr} + \alpha_{pt} + \epsilon_{prt}$$

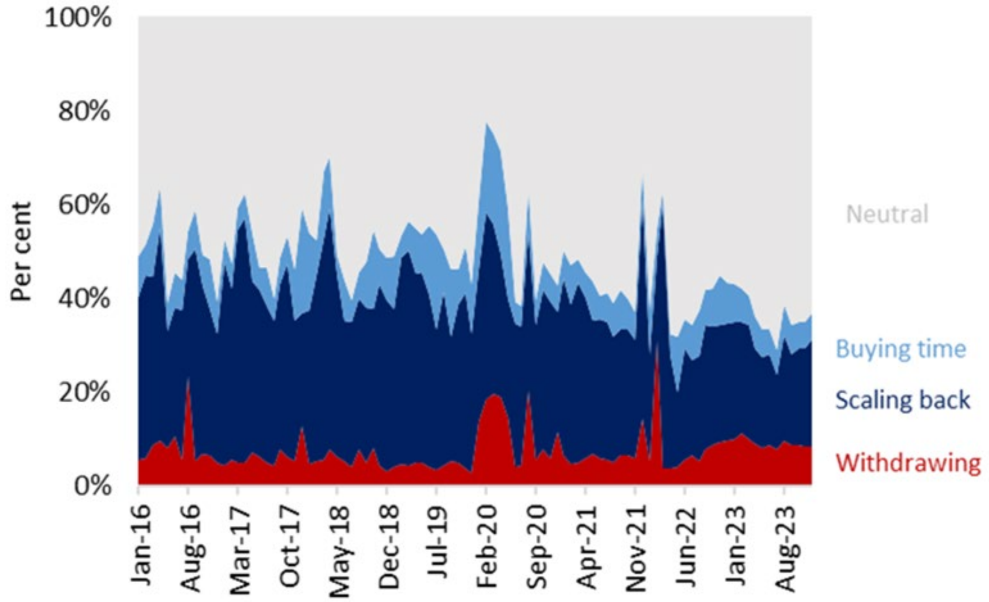
Ref. group: neutral trademarks	Trade, log	0-1	Trade, hyp	Trade, ppml
Post-sanctions x Buying time	**-0.627*** **	**-0.113*** **	**-0.949*** **	**-1.167*** **
	(0.0396)	(0.00290)	(0.0267)	(0.213)
Post-sanctions x Scaling back	**-1.031*** **	**-0.145*** **	**-1.253*** **	**-1.765*** **
	(0.0373)	(0.00277)	(0.0279)	(0.260)
Post-sanctions x Withdrawing	**-1.527*** **	**-0.162*** **	**-1.491*** **	**-2.080*** **
	(0.0371)	(0.00257)	(0.0276)	(0.225)
Observations	4,277,938	22,414,272	22,414,272	21,394,913
R-squared	0.778	0.511	0.601	

Source: Russia customs statistics and authors' calculations. ***, **, * denote statistical significance at the 1%. 5%, 10% levels. Standard errors are clustered on products (HS6). All regressions include product * trademark and product * month FE. Sample is restricted to imports where the attitude of the trademark owner to serving the Russian market is defined. Base group = 303 neutral trademarks.

Did sanction **circumvention** take place?

Russia’s imports from neutral trading countries





Source: Russia customs statistics and authors’ calculations. Sample is restricted to imports where the attitude of the trademark owner to serving the Russian market is defined. Imports are direct if exporting trader is located in a sanctioning jurisdictions and intermediated if exporting trader is located in a neutral jurisdiction.

More intermediated imports of goods with TMs under **more stringent private sanctions**

$$NeutralShare_{prt} = \beta\, PostSanctions_t * TrademarkType_r + \alpha_{pr} + \alpha_{pt} + \epsilon_{prt}$$

Ref. group: neutral trademarks	Neutral traders, share	Neutral traders, 0-1
Post-sanctions x Buying time	**0.178***** (0.00681)	**0.188***** (0.00739)
Post-sanctions x Scaling back	**0.310***** (0.00613)	**0.314***** (0.00548)
Post-sanctions x Withdrawing	**0.392***** (0.00695)	**0.367***** (0.00583)
Observations	4,175,630	4,177,206
R-squared	0.803	0.740

Source: Russia customs statistics, authors' calculations. ***, **, * denote statistical significance at the 1%. 5%, 10% levels. St. errors are clustered on products (HS6). All regressions include product * trademark and product * month FE. Sample is restricted to imports where the attitude of the trademark owner to serving the Russian market is defined. Base group = 303 neutral trademarks. The sample excludes observations with missing country.

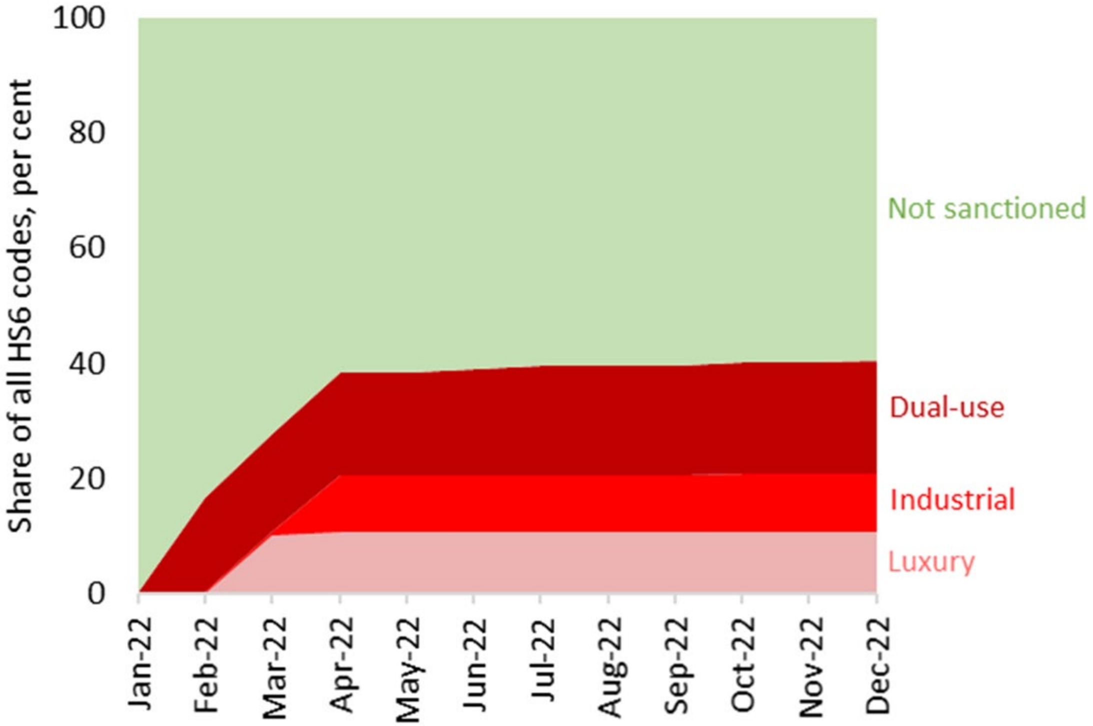
Types of **sanctioned goods**

- **Arms**, advanced and **dual-use technology** (eg weapons HS 9301)

- **Quantum computing**, advanced **semiconductors** (eg semi-conductor media 852352)
- **Sensitive machinery**, goods seen to enhance Russia's industrial production capacity (eg engines, pumps, 8412, 8413)
- **Transportation** (eg containers 860900; aircraft and parts 88)
- Various **chemicals** (eg ammonia 281420)
- Goods for use in the **oil industry** (eg steel pipes for oil pipelines, 730411)
- **Maritime navigation** (eg navigation instruments 9014)

- **Luxury goods** (eg ski suits 611220)

Share of sanctioned HS6 codes by month



Greater drop in imports of goods with TMs under **more stringent private sanctions for all types of goods**

$$Trade_{prt} = \beta\, PostSanctions_t * TrademarkType_r + \alpha_{pr} + \alpha_{pt} + \epsilon_{prt}$$

	Dep. var: Volume of trade (PPML)				
Ref. group: neutral trademarks	All	Dual-use	Industrial	Luxury	Non-sanctioned
Post-sanctions x Buying time	**-1.167***** (0.213)	**-0.769***** (0.238)	**-2.258***** (0.259)	**-1.166***** (0.256)	**-0.826***** (0.151)
Post-sanctions x Scaling back	**-1.765***** (0.260)	**-1.229***** (0.219)	**-2.123***** (0.209)	**-2.416***** (0.511)	**-1.308***** (0.179)
Post-sanctions x Withdrawing	**-2.080***** (0.225)	**-1.665***** (0.216)	**-2.295***** (0.209)	**-2.584***** (0.436)	**-1.757***** (0.221)
Observations	21,394,913	7,790,485	2,384,730	3,862,815	7,356,883

Source: Russia customs statistics, authors' calculations. ***, **, * denote statistical significance at the 1%. 5%, 10% levels. St. errors are clustered on products (HS6). All regressions include product * trademark and product * month FE. Sample is restricted to imports where the attitude of the trademark owner to serving the Russian market is defined. Base group = 303 neutral trademarks.

More intermediated imports of goods with TMs under **more stringent private sanctions for all types of goods**

$$ShareNeutral_{prt} = \beta\ PostSanctions_t * TrademarkType_r + \alpha_{pr} + \alpha_{pt} + \epsilon_{prt}$$

	Dep. var: neutral traders, share				
Ref. group: neutral trademarks	All	Dual-use	Industrial	Luxury	Non-sanctioned
Post-sanctions x Buying time	**0.178*****	**0.216*****	**0.342*****	**0.0849*****	**0.160*****
	(0.00681)	(0.0121)	(0.0170)	(0.0108)	(0.0106)
Post-sanctions x Scaling back	**0.310*****	**0.363*****	**0.413*****	**0.222*****	**0.267*****
	(0.00613)	(0.00738)	(0.0109)	(0.0114)	(0.0131)
Post-sanctions x Withdrawing	**0.392*****	**0.458*****	**0.507*****	**0.288*****	**0.339*****
	(0.00695)	(0.00964)	(0.0132)	(0.0115)	(0.0158)
Observations	4,175,630	1,592,178	500,446	920,636	1,162,370
R-squared	0.803	0.778	0.817	0.812	0.824

Source: Russia customs statistics, authors' calculations. ***, **, * denote statistical significance at the 1%. 5%, 10% levels. St. errors are clustered on products (HS6). All regressions include product * trademark and product * month FE. Sample is restricted to imports where the attitude of the trademark owner to serving the Russian market is defined. Base group = 303 neutral trademarks. The sample excludes observations with missing country.

What is the **price of values**?

What is the **price of values**?

- Focus on **not sanctioned** goods
- **Buying time** as control group

Ref. group: Buying time	Trade, log	0-1	Trade, hyp	Trade, ppml
	Sample: only not sanctioned goods			
Post-sanctions x Scaling back	**-0.290*** **	**-0.0195*** **	**-0.161*** **	**-0.320** **
	(0.0427)	(0.00227)	(0.0195)	(0.158)
Post-sanctions x Withdrawing	**-0.901*** **	**-0.0357*** **	**-0.374*** **	**-0.762*** **
	(0.0544)	(0.00291)	(0.0259)	(0.190)
Observations	1,007,021	6,292,896	6,292,896	5,837,110
R-squared	0.807	0.497	0.587	

Tariff equivalence for log model

$$\tau^r = 100 \times (\exp(\gamma/\sigma) - 1)$$

	Tariff equivalence σ = 5.3	σ = 2	σ = 0.76
Scaling back	6	16	46
Withdrawing	19	57	227

Source: Russia customs statistics and authors' calculations. ***, **, * denote statistical significance at the 1%. 5%, 10% levels. Standard errors are clustered on products (HS6). All regressions include product * trademark and product * month FE. Sample is restricted to imports where the attitude of the trademark owner to serving the Russian market is defined.

What is the **price of values**? Only not sanctioned goods & Buying time as control group

- Focus on **not sanctioned** goods
- **Buying time** as control group
- Combine **Withdrawing** and **Scaling back**

Tariff equivalence for log model

$$\tau^r = 100 \times (\exp(\gamma/\sigma) - 1)$$

	Tariff equivalence		
	σ = 5.3	σ = 2	σ = 0.76
Withdrawing/Scaling back	10	28	92

	Sample: only not sanctioned goods			
Ref. group: Buying time	Trade, log	0-1	Trade, hyp	Trade, ppml
Post-sanctions x Withdrawing/Scaling back	**-0.497*** **	**-0.0253*** **	**-0.238*** **	**-0.438*** **
	(0.0401)	(0.00226)	(0.0195)	(0.152)
Observations	1,007,021	6,292,896	6,292,896	5,837,110
R-squared	0.807	0.497	0.587	

Source: Russia customs statistics and authors' calculations. ***, **, * denote statistical significance at the 1%. 5%, 10% levels. Standard errors are clustered on products (HS6). All regressions include product * trademark and product * month FE. Sample is restricted to imports where the attitude of the trademark owner to serving the Russian market is defined.

IV approach

Concern: MNCs announce withdrawal bc of **poor performance in Russia**

IV approach based on publicly listed status

- Publicly listed TM owners were more likely to face investor scrutiny and associated pressure => more likely to **scale back/withdraw irrespective of expected performance**

Church of England to reconsider shares in TotalEnergies over Ukraine inaction

Pension board and investment fund managers urge French energy company to cut ties with Russia

While TotalEnergies has condemned Russia's aggression, it has not followed many of its peers in the energy sector, such as BP and Shell, in withdrawing from Russia. Photograph: Gonzalo Fuentes/Reuters

Investors put pressure on Nokian Tyres after controversial Russia comments

There has been a consumer outcry in Finland as commen
tire manufacturer were interpreted as saying the war in Ul
could increase its market share in Russia. Nokian Tyres, wh
price has plummeted since the beginning of the war, is pa
owned by the state holding company Solidium and pensic
Varma and Ilmarinen.

Investor pressure to withdraw

McDonald's decision follows a plea by the New York state pension fund, with an estimated $280 billion in assets under management as of the end of 2021.

"Pausing or ending McDonald's business operations in Russia would address various investment risks associated with the Russian market and play an important role in condemning Russia's role in fundamentally undermining the international order that is vital to a strong and healthy global economy," state comptroller Thomas DiNapoli stated Friday in a letter to Kempczinski.

IV approach – only Western trademarks

Number of trademarks

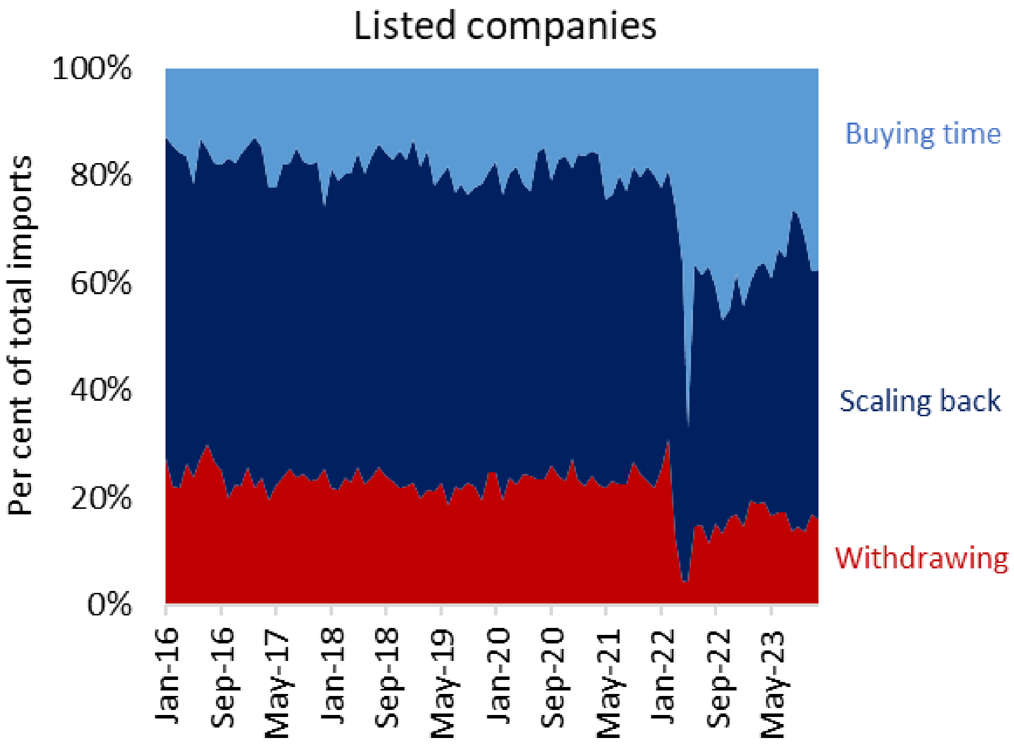
A higher share of publicly listed companies among withdrawing/scaling back vs those buying time

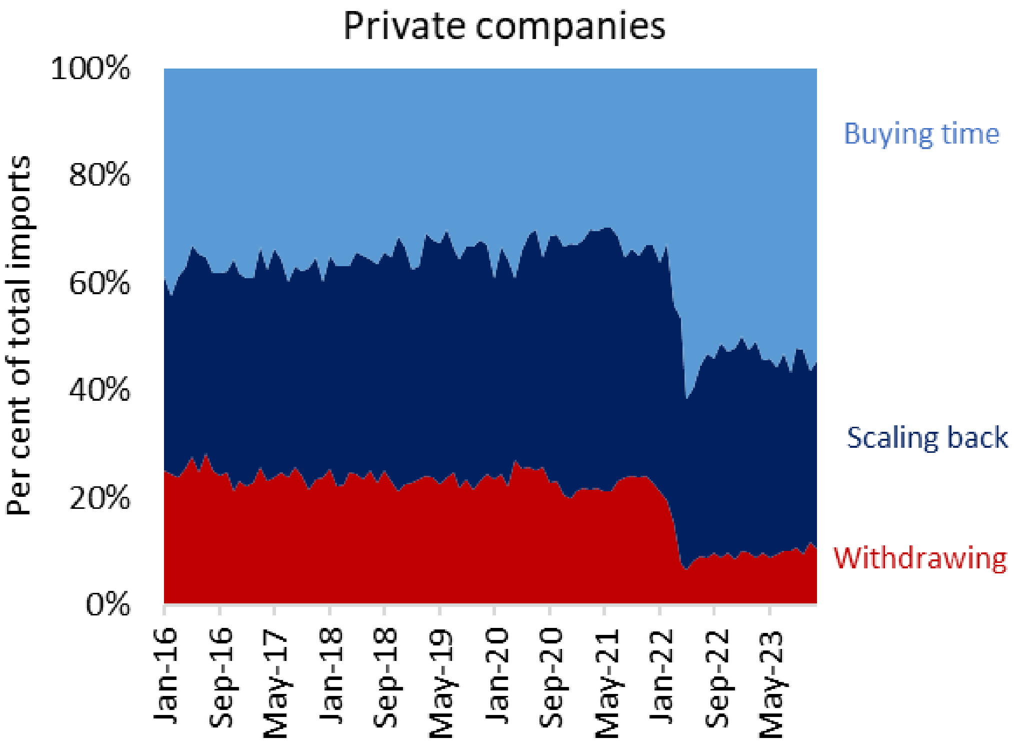
	All goods			*Sanctioned goods*			*Not sanctioned goods*		
	Private	Listed	% Listed	Private	Listed	% Listed	Private	Listed	% Listed
Buying time	178	344	65.90	169	311	64.79	157	253	61.71
Scaling back	205	459	69.13	197	451	69.60	176	427	70.81
Withdrawing	153	317	67.45	144	299	67.49	133	285	68.18
Total	536	1120	67.63	510	1061	67.54	466	965	67.44

Trademarks span sanctioned and non-sanctioned exports: eg Bosch juice machines (HS 850940) vs ovens (“luxury” sanctions, HS 851660) vs engine parts (“industrial” sanctions, HS 840999)

Source: Russia customs statistics and authors’ calculations.

No pre-trend for listed vs non-listed Western companies





Source: Russia customs statistics and authors' calculations. Only Western trademarks.

IV approach – only Western trademarks

Second stage: $Log\ Trade_{prt} = \beta\ PostSanctions_t * Withdrawing/ScalingBack_r + \alpha_{pr} + \alpha_{pt} + \epsilon_{prt}$
First stage: $PostSanctions_t * Withdrawing/ScalingBack_r = \pi\ PostSanctions_t * Listed_r + \alpha_{pr} + \alpha_{pt} + \epsilon_{prt}$

Base group: 522 buying time trademarks

Base group: Buying time	First stage	IV				OLS			
	Withdrawing/ Scaling back	Trade, log	Trade, 0-1	Trade, hyp	Trade, PPML	Trade, log	Trade, 0-1	Trade, hyp	Trade, PPML
Post-sanctions x Withdrawing/Scaling back		**-0.354***** (0.0220)	**-0.0400***** (0.00213)	**-0.421***** (0.0176)	-0.0730 (0.381)	**-0.497***** (0.0229)	**-0.0370***** (0.00167)	**-0.379***** (0.0159)	**-0.450***** (0.0716)
Post-sanctions x Listed	**0.176***** (0.00299)								
Observations	18,030,144	3,575,906	18,030,144	18,030,144	17,100,618	3,575,906	18,030,144	18,030,144	17,100,618
R-squared	0.805					0.785	0.527	0.619	

Source: Russia customs statistics and authors' calculations. ***, **, * denote statistical significance at the 1%. 5%, 10% levels. Standard errors are clustered on products (HS6). All regressions include product * trademark and product * month FE. Western trademarks only where the attitude of the trademark owner to serving the Russian market is defined.

What is the **price of values**?

Base group: Buying time	IV
VARIABLES	Trade, log
Post-sanctions x Withdrawing/Scaling back	**-0.354***
	(0.0220)
Post-sanctions x Listed	
Observations	3,575,906
R-squared	
Cragg-Donald F-statistic	316547.00

Tariff equivalence

σ = 5.3	σ = 2	σ = 0.76
7	19	59

Source: Russia customs statistics and authors' calculations. Note: Tariff equivalence elasticities are based on Fontagne, Guibard, and Orefice (2022) and Boehm, Levchenko, and Pandalai-Nayar (2023).

IV results: Share of neutral traders

Base group: Buying time	First stage	IV		OLS	
	Withdrawing/ Scaling back	Neutral traders, share	Neutral traders, 0-1	Neutral traders, share	Neutral traders, 0-1
Post-sanctions x Withdrawing/Scaling back		**0.158***** (0.00269)	**0.0576***** (0.00359)	**0.141***** (0.000800)	**0.126***** (0.00107)
Post-sanctions x Listed	**0.277***** (0.00783)				
Observations	3,491,696	3,490,355	3,491,696	3,490,355	3,491,696
R-squared	0.854			0.698	0.638

Alternative explanations

Alternative explanation: MNCs announce withdrawal bc of **consumer boycotts in Russia**

No, bc **unit values** of goods bearing trademarks of **withdrawing companies** go **up**

Ref. group: neutral trademarks	Unit value, log
Post-sanctions x Buying time	0.0144
	(0.0114)
Post-sanctions x Scaling back	**0.123*****
	(0.0146)
Post-sanctions x Withdrawing	**0.189*****
	(0.0168)
Observations	4,271,293
R-squared	0.864

Source: Russia customs statistics and authors' calculations. ***, **, * denote statistical significance at the 1%. 5%, 10% levels. Standard errors are clustered on products (HS6). All regressions include product * trademark and product * month FE. Sample is restricted to imports where the attitude of the trademark owner to serving the Russian market is defined. Base group = 303 neutral trademarks.

Alternative explanation: MNCs announce withdrawal due to **growing logistics costs**
Focus only on trade where country of origin of goods is **China**

For goods manufactured in China (= country of origin), the logistics of shipping goods has likely changed little (whether by sea, by land or by air)

Sample restricted to goods of China origin

Ref. group: neutral trademarks	Trade, log	0-1	Trade, hyp	Trade, ppml
Post-sanctions x Buying time	**-0.247*** **	**-0.101*** **	**-0.781*** **	-0.362
	(0.0446)	(0.00314)	(0.0270)	(0.246)
Post-sanctions x Scaling back	**-0.504*** **	**-0.117*** **	**-0.913*** **	**-1.007*** **
	(0.0371)	(0.00322)	(0.0286)	(0.102)
Post-sanctions x Withdrawing	**-0.928*** **	**-0.138*** **	**-1.165*** **	**-1.295*** **
	(0.0451)	(0.00307)	(0.0298)	(0.172)
Observations	1,637,214	10,788,096	10,788,096	9,994,037
R-squared	0.753	0.436	0.513	

***, **, * denote statistical significance at the 1%. 5%, 10% levels. St. er. are clustered on products (HS6). All regressions include product * trademark and product * month FE. Sample is restricted to imports where the attitude of the trademark owner to serving the Russian market is defined. Base group = 303 neutral trademarks. Country of origin = China

Conclusions

Private sanctions—self-imposed restrictions by firms— **reinforced** the effects of **official sanctions**

The **price of values is substantial** — equivalent to an extra tariff of between 9 and 59%

Some circumvention of private sanctions — by trading with neutral countries