British Foreign Policy Group

# Sanctions and Patient Diplomacy: Having It All or Just a Diversion?

Dr. Rebecca Harding, Senior Research Fellow,
British Foreign Policy Group

Dr. David Landsman, Senior Adviser,
British Foreign Policy Group

## The British Foreign Policy Group

The British Foreign Policy Group (BFPG) is an independent, non-partisan think tank dedicated to advancing the UK's global influence, at a crucial time in the nation's modern history. Our core objective is to bridge the link between the domestic and international spheres – recognising that Britain's foreign policy choices are shaped by our social, economic and democratic landscape at home. Our mission supports Britain as a strong, engaged and influential global actor. We promote democratic values, liberal societies, and the power of multilateralism – and we recognise Britain's critical international responsibility to uphold and extend these throughout the world. The BFPG believes that a strong and united nation at home is the essential foundation of an effective and cohesive UK foreign policy.

## The Authors

**Dr. Rebecca Harding** is a Senior Research Fellow of the British Foreign Policy Group and an independent trade economist, public speaker and sustainable trade and supply chain specialist. She has built three data-based technology businesses in the trade and sustainability space and held senior positions as Head of Corporate Research at Deloitte, Senior Fellow at London Business School, and Chief Economist roles at the Work Foundation and the British Bankers' Association. She acted as Specialist Adviser to the Treasury Select Committee and advised the All-Party Parliamentary Group on Entrepreneurship. She has acted as a trade finance and supply chains expert witness, is a member of the World Trade Board, the ITFA's ESG Committee and the ICC's sustainable trade finance technology sub-committee. Between 2004 and 2018 she was a Director and Trustee of the German-British Forum.

**Dr. David Landsman** is a Senior Adviser at the British Foreign Policy Group. He is also Executive Chair of BFPG's sister organisation, British Expertise International, and Senior Advisor at its other sister organisation, The D Group. He is a former British diplomat and senior executive whose main area of interest now is the interface between business, government and geopolitics. His diplomatic career included serving as British Ambassador to Albania and Greece and working on defence and proliferation. He has had executive roles at De La Rue plc and the Tata Group's holding company in Europe. His other current positions include Chair of Digital Cognate, a deep tech company, and of the British-Serbian Chamber of Commerce; Partner at Circklo, which supports early-stage tech businesses; and member of the International Advisory Board of the London Institute of Banking and Finance. He has a PhD in Linguistics from the University of Cambridge and is a Chartered Director.

# Introduction

The use of economic sanctions and other forms of trade control as instruments of, particularly Western, policy is not new. They are used to serve a range of distinct foreign, defence and trade policy purposes, sometimes short-term and reactive, at other times more strategic.

Classic sanctions have been used as a coercive measure extensively against countries which are deemed to be acting unacceptably, from (among others) Apartheid South Africa, through to various constituents of the Former Yugoslavia, to Iraq, Iran, Myanmar, North Korea and Russia. They have sometimes been presented as a less aggressive alternative to military action, though often military action has followed when sanctions and other political measures have failed to achieve the desired result. The stated aim of sanctions is usually to change the target country's behaviour, rather than to change its regime (which would be politically or even legally problematic), or to weaken its economy which, given the implications for ordinary citizens – particularly the most vulnerable – can be seen as an undesirable motive.

Arms embargoes, as in the Former Yugoslavia, are sometimes presented as essential to limit the materiel available to the protagonists to pursue a conflict, though such embargos can be controversial to those who regard one actor as the aggressor and others as victims in need of self-defence. On other occasions, as with the Cold War COCOM regime, or the various (e.g. European Union and United States) arms embargoes against China, they are designed to ensure that adversaries are unable to benefit from certain military or dual-use technologies. It is notable that the Russian invasion of Ukraine has prompted renewed Western thinking on how to rebuild COCOM-like walls, after Moscow had been admitted into a number of plurilateral export control regimes following the end of the Cold War, though today's globalised supply chains will not simply permit 'turning back the clock'.

In recent years, sanctions and other trade controls have gained increased support in the Western foreign policy community. They are seen as representing a politically attractive, and (at least sometimes) low-cost way of being seen to 'do something' about a wayward state without having to resort to threats of military action. In fact, one of the priority pledges to come out of the UK Government's 2023 Integrated Review Refresh was the £50 million commitment over two years towards the new Economic Deterrence Initiative, designed to improve both the UK's sanctions implementation and its enforcement.[1] It is also a strong sign of the importance placed on sanctions within Western foreign policy that the UK Government has put an emphasis on the development of an independent sanctions policy as a 'Brexit benefit', in theory enabling it to move farther and faster than the EU, even if, in practice, the UK, EU and other allies have largely acted in lockstep.

This paper examines the extent to which sanctions and other trade controls are able to achieve their stated objectives in the context of the UK's wider foreign policy. In particular, it explores the impact of sanctions on trade flows, including the scope for trade diversion and the opportunity for target nations to build resilience through alternative trade routes which risk creating unhelpful new geopolitical realities. In addition, it considers the impact of sanctions implementation on the development of relationships with key 'middle-ground powers', within the Government's ambitions for the UK to deliver 'patient diplomacy', and argues that, despite the specific imperatives informing sanctions policy, in today's world, we cannot afford to ignore the wider picture.

[1] Cabinet Office (2023). *Integrated Review Refresh 2023: Responding to a More Contested and Volatile World.* Retrieved from: https://www.gov.uk/government/publications/integrated-review-refresh-2023-responding-to-a-more-contested-and-volatile-world

# Sanctions today: coordinated but complex

Since the Russian invasion of Ukraine, sanctions and trade restrictions have been used on an unprecedented scale, playing a major part in the West's foreign policy response. The extent of the measures, and the determination with which they have been implemented has significantly exceeded expectations. They have also had a more profound direct impact on the economies of the implementing countries than any previous round of sanctions, including even the long-lasting Cold War measures, given the West's minimal dependence on the Soviet Bloc. While in some European countries there has been resistance to the domestic economic effects of sanctions, they have been remarkably well tolerated - for example, in June 2023 75% of Britons supported imposing sanctions on the Russian Government, companies, and individuals.[2] A cynic might say that voters have not fully separated out the impact of sanctions from other economic pressures but it is nonetheless the case that, so far, the public has been remarkably willing to accept the cost.

Over the course of the months since Russia's invasion of Ukraine, the United States, NATO and the EU have learned much, not just about the use of trade to achieve strategic objectives, but also about its limitations. The implementation of sanctions against Russia has been remarkably effectively coordinated between major Western powers and their allies, notwithstanding the (obvious) absence of a UN mandate. This broad consensus represents a striking recognition of the importance of trade as a weapon of strategy in a multidimensional conflict. It is paradoxically a confirmation of the inter-dependencies between nations that have emerged through the post-Cold War era of globalisation.[3]

Having survived one difficult winter, there seems little sign yet that Western resolve on sanctions is faltering. Indeed, as far as energy is concerned, while there has been a considerable economic downside, there are also winners, not least those who gain from the accelerated promotion of renewables. A cold winter, combined pressures from ongoing conflict in the Middle East, and the potential for a distracted United States, would however soon put European rhetoric to the test.

It is still worth asking whether sanctions are really as powerful or as effectively targeted as is claimed. At the macroeconomic level, the impact on the Russian economy, while measurable, has been significantly less than many predicted - Russian GDP fell just 2.1% in 2022, and is forecast to grow 2.2% in 2023.[4] That might not be a problem in itself: after all, we noted that the aim should not be the indiscriminate weakening of the target country's economy. However, to be effective (and to meet the 'just war' test), sanctions should at least hit the regime where it hurts and limit its ability to pursue undesirable policies. But at the microeconomic level too, the picture is mixed: in almost every case of the imposition of sanctions, in anything but the long-term, the target regime can strengthen its own internal position by taking control over sanctions evasion and by managing the allocation of limited resources to favour its allies at home and abroad.

Equally importantly, a country under sanctions will naturally seek to diversify its own relationships with those prepared to continue trading with it, as Russia has done with a wide range of countries, including some (e.g. India) which have chosen not to support the Western-

[2] Cabinet Office (2023). *Ibid*.

[3] Farrell, H., & Newman, A.L. (2019). Weaponized Interdependence: How Global Economic Networks Shape State Coercion. *International Security. International Security, 44*(1), 42-79. Retrieved from: https://direct.mit.edu/isec/article/44/1/42/12237/Weaponized-Interdependence-How-Global-Economic

[4] International Monetary Fund (2023). *World Economic Outlook: Navigating Global Divergences*. Retrieved from: https://www.imf.org/en/Publications/WEO/Issues/2023/10/10/world-economic-outlook-october-2023

led sanctions regime and those (such as Iran and North Korea) which are explicitly hostile to the West. This raises an important geopolitical challenge: by adopting an extensive sanctions regime which at least in the short-term harms the interests of the implementing states, the West is effectively forcing the question; "are you with us or against us?". Some, like Iran and North Korea, have no problem in answering that question, with Russia encouraging them to build a stronger anti-Western alliance. Forcing third countries to take sides also risks harming Western interests with a significant range of 'middle-ground' powers which, for reasons of geography, history and political positioning, may be unwilling or unable to take sides in such a direct way. For the UK, this means that a strong sanctions policy comes up against the patient diplomacy of engagement with 'middle-ground' powers advocated by the Government.[5] While the two are not necessarily mutually exclusive (after all, patient diplomacy, like all diplomacy is intended to serve a national interest), it would be unfortunate if it has so soon to be put into the service of a very difficult ask.

[5] Foreign, Commonwealth and Development Office (2022). *British Foreign Policy and Diplomacy: Foreign Secretary's Speech, 12th December 2022*. Retrieved from: https://www.gov.uk/government/speeches/foreign-secretarys-speech-12-december-2022

# The real impact of sanctions

How are sanctions working in practice? The rest of this paper aims to add to our understanding of the advantages and the limitations of sanctions as a means of constraining an adversary by looking specifically at how trade generally, and in oil and gas in particular, has responded to the new regime of embargoes, price-caps and controls.

As we have already discussed, the intention of sanctions against Russia was not to weaken the Russian tout court. Rather, the aim was to shut off the sources of finance to Russia's military by restricting the economy's access to export revenues, particularly from its sale of oil and gas. This formed part of a raft of measures which have also included restrictions on access to international financial markets, restrictions on access to technologies that may have a military application (dual use goods), and access to SWIFT, the inter-bank messaging system used commonly in trade finance and cross-border payments.

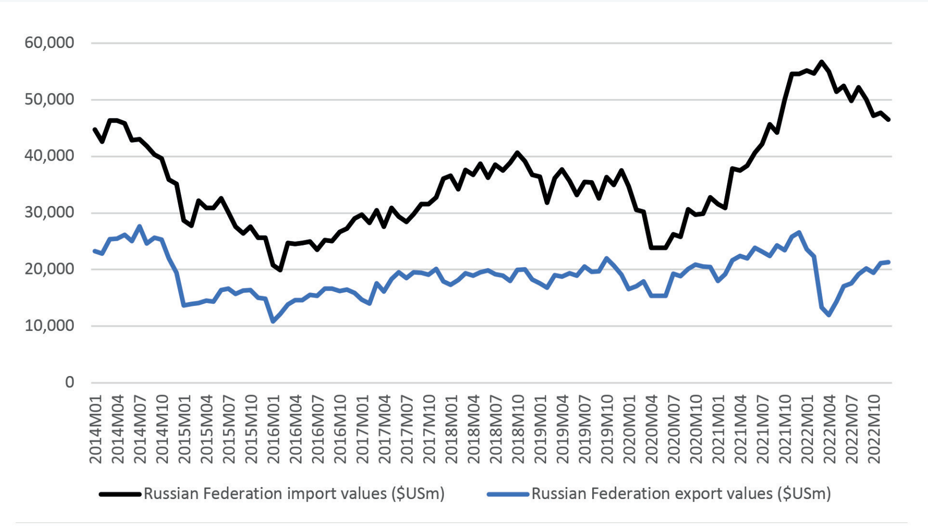
What is clear from the data presented here is that the evidence is at best mixed. Sanctions have not starved the Russian military of resources. The IMF has reported on the resilience of the Russian economy as a whole and there has been little sign that the Russian economy would be unable to withstand a long, drawn-out conflict.[6]

But it does appear that they are catalysing the separation of the economic, technological and financial world into 'Eastern' and 'Western' spheres of influence. Russia is being excluded from the globalisation of the last 30 years, but it is much less clear that it will be excluded from any new system that emerges. Whether or not the West will have control over that new paradigm is moot, but its actions now have made sure that power relations in the next 30 years will be very different in their construction to the past 30 years.

There is evidence that at the end of 2022, Russia exported as much in value terms as it did in January 2014 before its first invasion of Ukraine (Figure 1) and after a drop in trade, potentially

Figure 1 **Russia's exports and imports, January 2014-December 2022 ($USm)**

BFPG




Source: IMF Direction of Trade Statistics

[6] The Economist (2023). *Russia's Economy Can Withstand a Long War, But not a More Intense One.* Retrieved from: https://www.economist.com/briefing/2023/04/23/russias-economy-can-withstand-a-long-war-but-not-a-more-intense-one; International Monetary Fund, *Russian Federation, At A Glance.* Retrieved from: https://www.imf.org/en/Countries/RUS

associated with the implementation of the Price Cap system between December 2022 and April 2023, that its export trade is starting to recover.[7]

This is the starting point for the data presented in this report. If sanctions, or more specifically export controls, are to stand any chance of being effective in constraining or excluding an adversary, they need to be applied consistently.[8] However, as has been self-evident since the invasion, while there is widespread unease at the direction of the conflict, there has been nothing like unanimous support for coercive measures in the United Nations.[9] This arguably reflects the views of a large number of non-Western countries, or 'swing states' that, while in most cases are unhappy at Russia's violation of the territorial integrity of a sovereign state, are also unwilling to associate themselves with the Western response.[10]

The evolution of global trade has led to the development of a number of shipping hubs, for example in the UAE and Hong Kong, which by definition are part of a wide range of trading and political relationships. Multiple options are therefore potentially available to Russia to develop alternative supply chains, less by altering production but by changing the ownership of the vessels carrying sanctioned goods and the location of the financial institutions that provide shipping finance.[11]

Alongside this, Russia represents 13% of world crude oil production and it therefore plays a systemic role in global commodity supply chains and critical supply.[12] Before the invasion, the European Union relied on Russia for around 45% of its gas supply. All the measures that have been introduced since mean that direct imports from Russia have been reduced by around 90%.[13] But of course this does not mean that Russia is no longer supplying oil and gas elsewhere.

In other words, the imposition of sanctions present policymakers with multiple unintended consequences.

First, there is a risk that sanctioned goods are diverted to non-sanctioned countries and, via trans-shipments or vessel re-consignment, end up in the countries that imposed the sanctions in the first place.

Secondly, and as a result of this, there is a risk that the desired foreign and security policy objectives are not met: in this case, Russia is not sufficiently constrained and continues to gain revenues from trade in sanctioned goods, while potentially benefiting from the opportunity to develop strengthened anti-Western alliances with those prepared to support it.

Finally, notwithstanding the immediate imperative to adopt a robust posture against Russia, sanctions policy will only properly meet the UK's broader security and prosperity objectives if it takes account of the importance of maintaining and developing relationships with key "middle-ground" powers (as they are described in the UK's 2023 Integrated Review refresh).[14] These

[7] Rosenberg E., & Van Nostrand, E. (2023). *The Price Cap on Russian Oil: A Progress Report*. Retrieved from: https://home.treasury.gov/news/featured-stories/the-price-cap-on-russian-oil-a-progress-report

[8] Brown, C. (2023). *The Return of Export Controls – a risky tactic that requires Cooperation from Allies.* Retrieved from: https://www.foreignaffairs.com/united-states/return-export-controls

[9] Al Jazeera (2023). *UN tells Russia to leave Ukraine: How did countries vote?* Retrieved from: https://www.aljazeera.com/news/2023/2/24/un-tells-russia-to-leave-ukraine-how-did-countries-vote

[10] Kupchan, C. (2023). 6 Swing States that will Decide the Future of Geopolitics. Retrieved from: https://foreignpolicy.com/2023/06/06/geopolitics-global-south-middle-powers-swing-states-india-brazil-turkey-indonesia-saudi-arabia-south-africa/

[11] The Economist (2023). *How Russia dodges oil sanctions on an industrial scale.* Retrieved from: https://www.economist.com/finance-and-economics/2023/01/29/how-russia-dodges-oil-sanctions-on-an-industrial-scale

[12] Hussaff, C., Guetta-Jeanrenaud, L., McWilliams, B., & Zachmann, G. (2023). *Russian Crude Oil Tracker*. Retrieved from: https://www.bruegel.org/dataset/russian-crude-oil-tracker#:~:text=In%202021%2C%20Russia%20produced%20540,comprising%2013%25%20of%20global%20exports.

[13] Kardaś, S. (2023). *Conscious uncoupling: Europeans' Russian gas challenge in 2023.* Retrieved from: https://ecfr.eu/article/conscious-uncoupling-europeans-russian-gas-challenge-in-2023/#:~:text=Before%20Russia%20invaded%20Ukraine%2C%20the,cent%20of%20total%20gas%20imports.

[14] Cabinet Office (2023). *Integrated Review Refresh 2023: Responding to a More Contested and Volatile World*. Retrieved from: https://www.gov.uk/government/publications/integrated-review-refresh-2023-responding-to-a-more-contested-and-volatile-world

are the focus of the patient diplomacy advocated by former Foreign Secretary James Cleverly in a speech in December 2022.[15] Significantly, a Goldman Sachs analysis of geopolitical swing states (on the analogy of the decisive swing states in US Presidential elections) identifies as one of four (overlapping) categories of swing state in the "countries with a competitive advantage in a critical aspect of global supply chains".[16] The increased importance of these countries is clear, whether one views the emerging geopolitical order as bipolar (the United States and China) or increasingly multipolar.

Given this new reality, sanctions policy will need to pivot towards those countries that are able to plug supply chain shortages without breaching sanctions, either by working with them to develop trade corridors or to support them in avoiding exposure to Russia through shipping. This is potentially the case for the UK. The UK itself is not reliant on Russian oil and gas to the same extent as the European Union. However, Russian precious metal and stone imports, which include industrial gold, silver and palladium, tell a different picture: because of the role that these play in UK critical supply chains, there is a clear need for developing a closer trading relationship with other exporters of these metals, such as Kazakhstan. Equally importantly, developing relationships with such countries can respond to and support their interest in reorientating themselves away from Russia and towards the West. It is therefore important that the UK invests effort in making these relationships as multidimensional, long-term and respectful as possible.

If, in its understandable effort to frustrate Russian aggression, the UK pursues a one-dimensional approach to sanctions enforcement, it risks appearing, in former Foreign Secretary James Cleverly's words, "too transactional and too impatient", at which point it could become not only counterproductive in the short-term but also damaging to the broader long-term security and prosperity interests which the UK seeks to pursue. On the one hand, the West (including the UK) cannot forget that, despite the broad international unease at the Russian invasion of Ukraine, the sanctions regime – for obvious reasons – does not enjoy the international legitimacy of UN Security Council support. At the same time, the broader context of the West's relationship with Russia – and the rest of the world – cannot be seen in old Cold War terms: "If you're not part of the solution, you're part of the problem" is no longer good enough.

In short, sanctions-based foreign and security policy can certainly play a role in constraining an adversary, but the trade diversion effects themselves highlight a range of other issues that can complicate the achievement of the primary objective and that therefore call for more creative diplomacy.

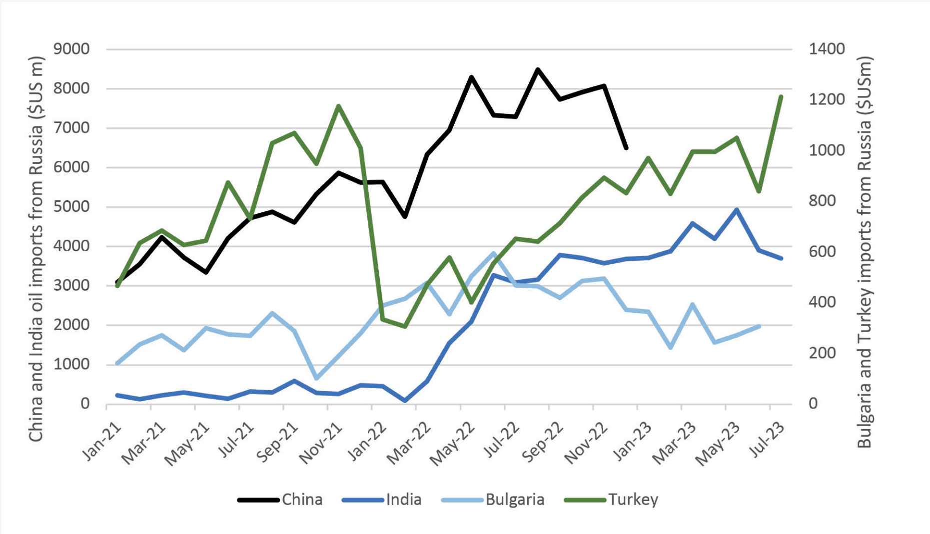
[15] Foreign, Commonwealth and Development Office (2022). *Ibid*.

[16] Cohen, J. (2023). *The Rise of Geopolitical Swing States.* Retrieved from: https://www.goldmansachs.com/intelligence/pages/the-rise-of-geopolitical-swing-states.html

# Oil and gas trade diversion – some evidence

India and China are the two largest recipients of Russian oil and gas by some margin. Both saw significant increases in the value of their trade between February 2022 and May 2022 after Russia's invasion of Ukraine. China's oil trade with Russia has since fallen back, but India's has gently increased since showing two spikes in 2023 – February and May – potentially reflecting the implementation of the price cap on direct exports of Russian oil (Figure 2).

Figure 2 **Imports of Russian oil, January 2021-July 2023 ($USm) selected countries**




Source: United Nations, Comtrade

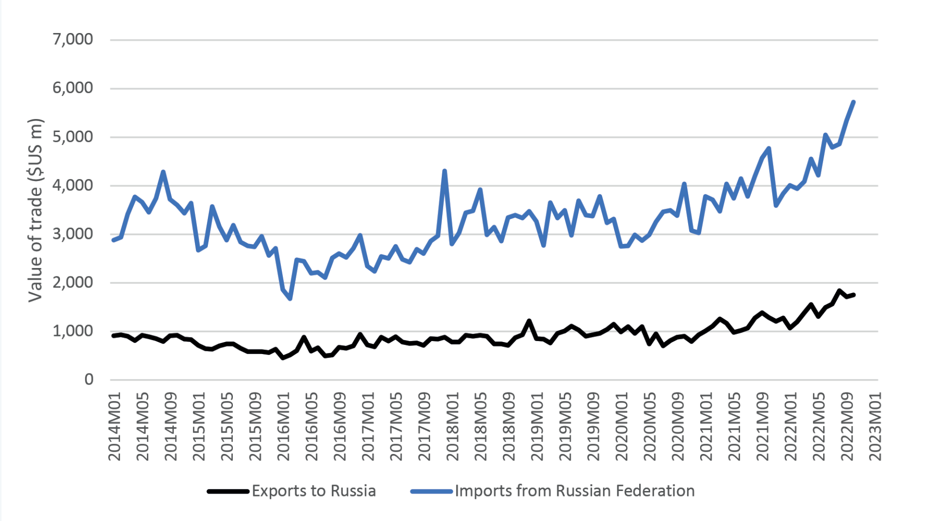
Two smaller trade routes are also of interest: Bulgaria and Turkey. Bulgaria has an exemption from the rigidities of the EU sanctions regime because of its historical dependency on Russian oil and has not imposed any sanctions on Russia since its annexation of Crimea in 2014.[17] Bulgaria's historical relationship with Russia is perhaps reflected in the fact that its oil imports started to increase from October 2021 and peaked in June 2022. There were also small spikes around the price cap implementation in February and May 2023.

Meanwhile, Turkey has been associated with sanctions evasion in relation to Russian military hardware, and shipping and trade more generally, to the extent that the United States has now sanctioned five Turkish businesses.[18] The consistent increase in oil imports to Turkey from Russia suggests that some of Russia's oil revenues are associated with that trade corridor.

[17] Jack, V. (2023). *Russian oil titan Lukoil eyes the end of its reign in Bulgaria.* Retrieved from: https://www.politico.eu/article/bulgaria-struggle-escape-grip-of-russia-lukoil-oil-company-eu-sanction/; Nikolov, K. (2023). Bulgaria has not sanctioned Russians since 2014. Retrieved from: https://www.euractiv.com/section/politics/news/bulgaria-has-not-sanctioned-russians-since-2014/

[18] Juknevičiūtė, R. & Aušra, M. (2023). *Sanctions evasion scheme revealed: how Russians tried to smuggle a plane through Palanga – LRT Investigation.* Retrieved from: https://www.lrt.lt/en/news-in-english/19/1956031/sanctions-evasion-scheme-revealed-how-russians-tried-to-smuggle-a-plane-through-palanga-lrt-investigation; Pamuk, H. & Psaledakis, D. (2023). *US sanctions 5 Turkish firms in broad Russia action on over 150 targets*. Retrieved from: https://www.reuters.com/world/us-sanction-five-turkey-based-firms-broad-russia-action-2023-09-14/

Figure 3 **MENA and Central Asian trade with Russia, Jan 2014-Dec 2022 ($USm)**




Source: IMF Direction of Trade Statistics

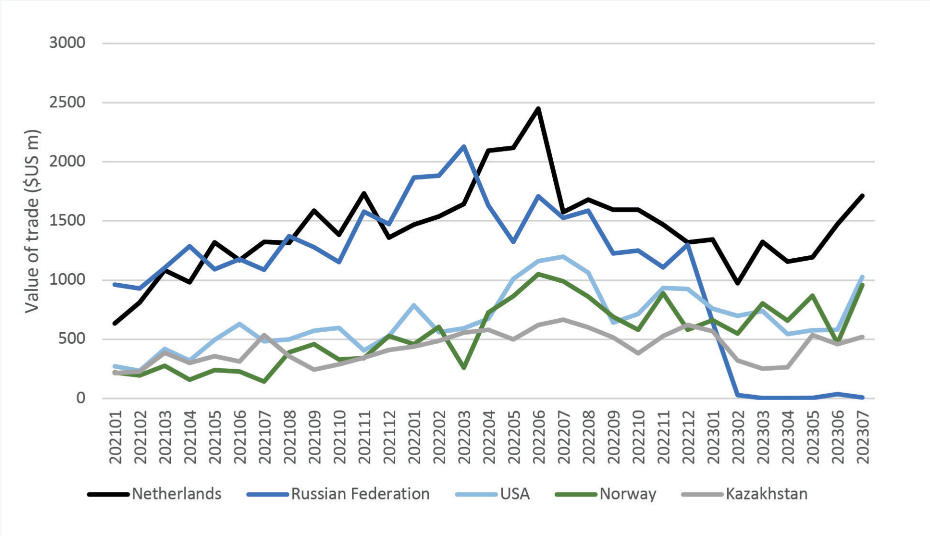
Figure 3 shows the overall trade between the Middle East and North Africa (MENA) and Central Asia for all sectors. Trade data for these countries is notoriously poor and so it is only possible to look at the flows at an aggregated level. There are nevertheless two factors worth noting here:

1. Imports from Russia to MENA and Central Asia actually fell between 2014 and 2016.
2. Exports and imports have both increased since the pandemic. The increase has been particularly marked since January 2022. Much of the trade between these partners has historically been in oil and gas, so the increase in trade suggests the emergence of new trade routes recently.

# The case of Germany

Within the EU, Germany was particularly exposed to Russian oil and gas. Its pivot since the Russian invasion of Ukraine has been remarkable as a break with its post-war economic and foreign policy model.[19] Nowhere has this been clearer than in the shift away from Russian oil, which had reached zero by February 2023 (Figure 4).

Figure 4 **Germany top five oil importers, January 2021-July 2023 ($USm)**




Source: United Nations, Comtrade

Russian oil has been replaced by oil reaching Germany via the Netherlands and, immediately after the invasion when sanctions were first imposed, from the United States, Norway and Kazakhstan. The sharp uptick in imports from all these alternative sources since June 2023 suggests strongly that they have increasingly substituted for Russian oil.

The case of gas, however, appears a little more complicated (Figure 5). In the trade statistics, Germany's gas supply before Russia's invasion came from "areas not elsewhere specified", as described by the strategic partner category used in international trade codes. In reality, this reflected the import of Russian oil through special purpose vehicles. Even after the invasion, up to August 2023 imports from this source were increasing, suggesting that it was important as a means of adding to gas storage during that period.

However, it has to be remembered that many of the imports of Russian gas came via Russian companies such as Gazprom, operating through subsidiaries in Germany and even qualifying for German Government support as these positions unwound following the invasion of Ukraine.[20] The period since the beginning of the conflict also reflects compounded decline of 1.5%, month-on-month, since January 2021. This potentially suggests that Germany has looked at alternatives, such as natural gas. However:

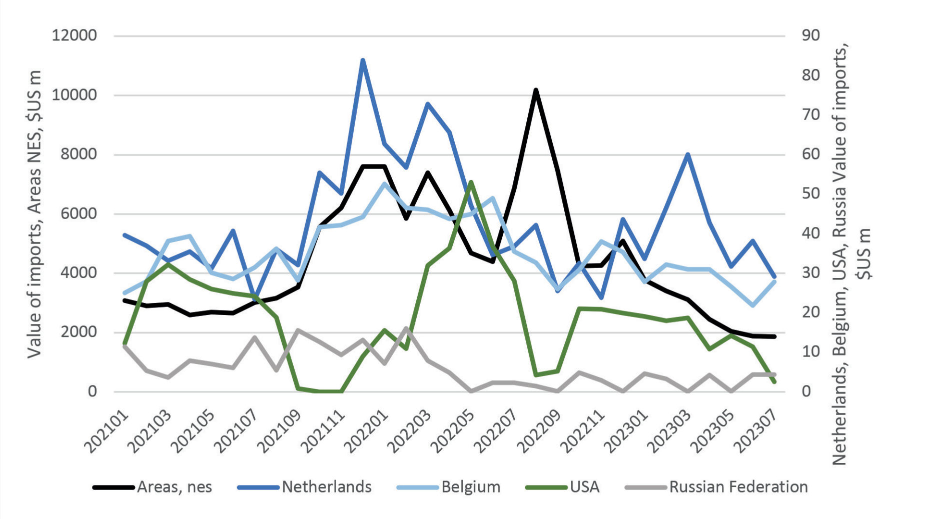
1. There is no evidence in trade data to suggest that natural gas imports have increased over the time period.

[19] Stelzenmüller, C. (2023). *Germany's Foreign Policy Shift is Real but Still Falls Short.* Retrieved from: https://www.ft.com/content/cd19430d-8506-4e16-9c43-c341accc6547

[20] Global Trade Alert (2022). *Germany: Government provides loan of up to EUR 9.8 billion to Gazprom Germania.* Retrieved from: https://www.globaltradealert.org/intervention/104335/capital-injection-and-equity-stakes-including-bailouts/germany-government-provides-loan-of-up-to-eur-9-8-billion-to-gazprom-germania

Figure 5 **Germany top five gas importers, Jan 2021-July 2023, ($USm)**

BFPG




Source: United Nations, Comtrade

2. There was a spike in electric energy imports into Germany between the beginning of Russia's invasion and December 2022 but this has not been sustained.
3. Germany started to import significantly more gas from Azerbaijan in January 2023.

The conclusion might therefore more appropriately be that Germany has been looking to as many sources of energy as possible in order to plug its shortfall in gas but there is no evidence to suggest this is consistent. Indeed, it suggests new dependencies might be emerging.

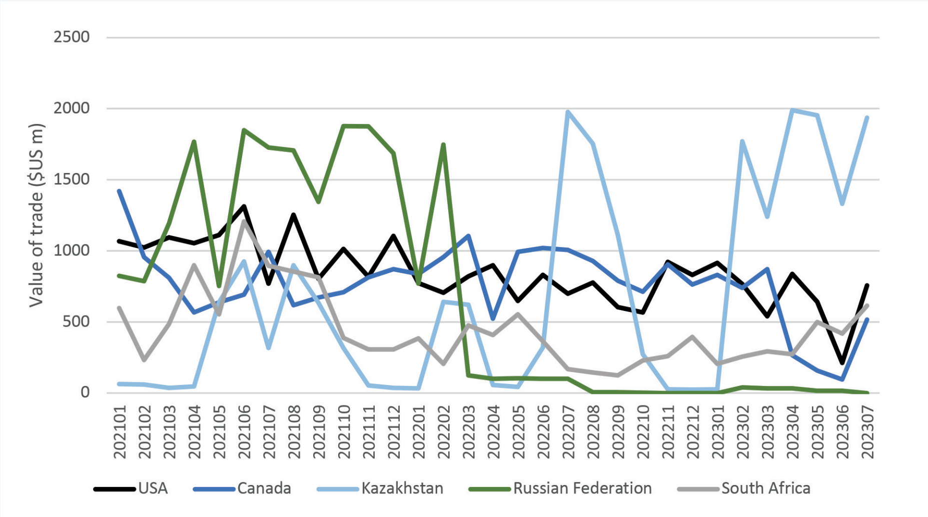
# The case of the UK

The UK's largest import from Russia is not oil or gas but is equally subject to sanctions: precious metals and stones. Apart from bullion, this category also includes industrial grade gold, silver and diamonds, as well as palladium. These are used in electronics production in particular and thus form part of the UK's critical supply chains.

Figure 6 shows that imports of these categories from Russia were replaced, almost immediately, by imports of a similar size from Kazakhstan. Other countries, notably the United States, South Africa and Canada, continue to make a much smaller and more consistent contribution to this trade but there is no significant diversion on these trade routes evident in the data.

Figure 6 **UK top five precious metal importers, Jan 2021-July 2023 ($USm)**

BFPG




Source: United Nations, Comtrade

Care should be taken in interpreting the drop in Kazakhstan's imports between November 2022 and January 2023: the data is extremely poor and there are gaps for these months. However, even though the trade appears lumpy, there is a clear switch in terms of imports of precious metals and stones from Russia to Kazakhstan. As there is no monthly sector or aggregated data available from verified international trade data sources for Kazakhstan's trade with Russia, it is impossible to say whether there has been an analogous increase in exports from Russia to Kazakhstan during this period. The UK's relationship with Kazakhstan has been developing over recent months, including through a visit by former Foreign Secretary Cleverly, and it may be that the UK Government has greater visibility regarding the source of these commodities.

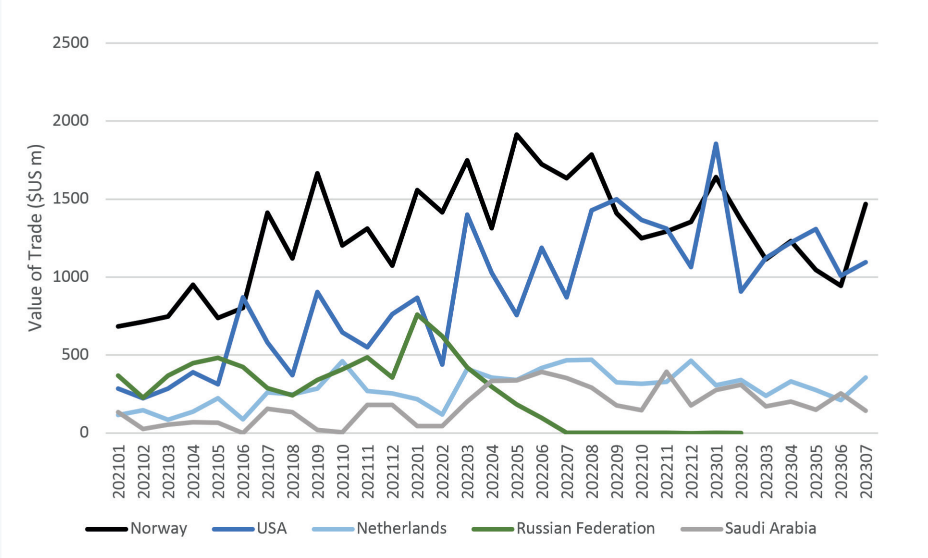
The UK's oil trade shows that Russia was becoming more important as one of the UK's main trading partners up to the invasion of Ukraine. Any substitution of the oil previously imported from Russia appears to be coming from Saudi Arabia and the Netherlands. While the Netherlands is not a producer of oil itself, it is a major trans-shipment hub and so the oil reported from the Netherlands is likely in fact to be originating from other countries (Figure 7).

One factor is worth noting, however. Trade with India, although the UK's 11th largest oil importer, has growth at a monthly compounded rate of 32% since January 2021. India has been increasing its imports from Russia and is only the 20th largest producer of oil in the world; its production has been falling back since 2010 and declined by nearly 4% in 2022.[21] This potentially raises questions about the ultimate origin of oil reaching the UK through this route.

[21] Statista (2023). *Oil production in India from 2010 to 2022*. Retrieved from: https://www.statista.com/statistics/609064/oil-production-in-india/

Figure 7 **UK top five oil importers, Jan 2021-July 2023 ($USm)**

BFPG

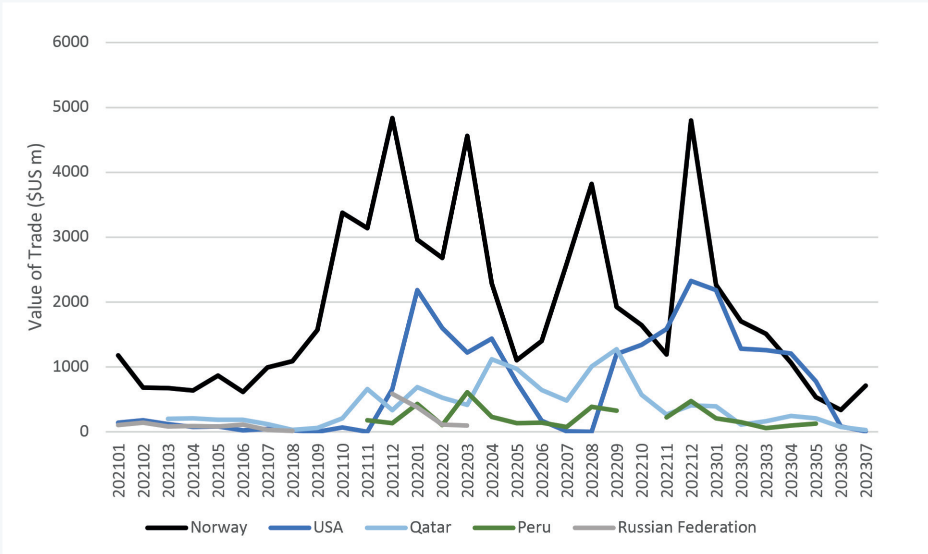



Source: United Nations, Comtrade

The UK's gas is again dominated by domestic supply and by Norway (Figure 8). There is no evidence of a switch, but the challenge the UK has is less with gas supply than it is with storage which is "materially behind" storage capacity in the EU.[22] This means that the UK is increasingly competing for gas supplies from Norway with the EU in short-term spot markets.[23] This helps explain why the United States has become as important a supplier of gas into the UK as Norway is over the time period.

Figure 8 **UK top five importers of gas, Jan 2021-July 2023 ($USm)**

BFPG




Source: United Nations, Comtrade

[22] Taaffe-Maguire, S. (2023). *UK may not have enough gas to power the country in winter, Centrica's Chris O'Shea says.* Retrieved from: https://news.sky.com/story/uk-gas-storage-materially-behind-european-neighbours-centricas-chris-oshea-says-12922851

[23] Elliott, S. (2022). *UK looking at long-term gas import contracts to ensure supply security: PM*. Retrieved from: https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/natural-gas/100422-uk-looking-at-long-term-gas-import-contracts-to-ensure-supply-security-pm#:~:text=The%20UK%20also%20has%20three,new%20long%2Dterm%20supply%20deals

# Conclusion – a comprehensive, realistic approach?

It is perhaps no surprise that the evidence shows how sanctions against Russia have led to a significant degree of trade diversion. China and India are importing more Russian oil, as are countries in Central Asia, MENA, Turkey and even Bulgaria. Germany's oil and gas sources have shifted materially, and while the UK's oil and gas supply was not dependent on Russian oil and gas, its supply of precious metals has switched from Russia to Kazakhstan.

Overall, the weight of sanctions against Russia has been considerable and unprecedented. The impact on Russia has been real, but nothing like as great as hoped – or claimed – at the outset. The sanctioning states, including the UK and Germany, have seen significant impacts on their supply chains, but they have so far weathered the storm with greater resilience than foreseen. If sanctions lead to an acceleration in the supply of renewables, there may even be long-term benefits.

But it is clear that Russia has not been excluded from trade completely. There is evidence of growing trade with a range of third countries and some signs that previously globalised trade may be splitting into Western- and Eastern- dominated routes. While the Western response may be to seek more effective sanctions enforcement, it is clear that will never be completely effective, and in any case, does not fully reflect the UK's strategic needs. At the same time as pursuing its targeted Russia policy, the West, including the UK, will need to respond to the emerging geo-economic situation by creating new stronger relations with a wide range of third countries. These should be based on the realpolitik represented by the requirement to be less reliant in the future on single sources of supply in critical supply chains. Despite today's crisis, this is the patient diplomacy the Government has called for. Everything else is just a diversion.

The British Foreign Policy Group is an independent, non-partisan think tank dedicated to advancing the UK's global influence, at a crucial time in the nation's modern history. To achieve this, we produce dynamic events and high-quality research, and facilitate networks amongst stakeholders with a vested interest in Britain's international engagement.

Our core objective is to bridge the link between the domestic and international spheres – recognising that Britain's foreign policy choices and obstacles are shaped by our social landscape at home. Through pioneering research into the UK's social fabric, we seek to build understanding of the nuances of public opinion, and how our foreign policy can become more inclusive, responsive and relevant to citizens' lives.

BFPG British Foreign Policy Group