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THE REAL IMPACT OF CRIMEAN SANCTIONS

Issue 2
March 2020



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Crimea Occupation, Sanctions, and Blockade

The occupation and subsequent illegal annexation of the Crimean peninsula by the Russian Federation (hereinafter referred to as "the RF") in February-March 2014 and Russia's further aggression against Ukraine have become a turning point in the global history of sanctions.

Certainly, the use of various restrictive measures in an attempt to coerce a particular state to change its policies is a centuries-old practice. But the problem that we all have been facing since 2014 raises the stakes considerably. It challenges us to answer whether, in the 3rd millennium, the civilised world is capable of changing the aggressive policy of a nuclear power, a founder and permanent member of the UN Security Council, without the application of military force.

The authors hope that the results of our work that has spanned the 6 years of the occupation of Crimea and remains ongoing will make a valid contribution to the understanding of the subject.

* * *

In the spring and summer of 2014, the first decisions on sanctions related to the occupation of Crimea became effective. The active military phase of the Russian Crimea operation began on 20 February 2014 and ended on 18 March 2014 with legitimising the fake "referendum", which was held in already occupied Crimea on 16 March 2014, in the RF.

The programme of U.S. sanctions over Russia's aggression against Ukraine began on 6 March 2014, when U.S. President Barack Obama issued an Executive Order (EO 13660) "Blocking Property of Certain Persons Contributing to the Situation in Ukraine".

The decree declared the state of emergency and imposed personal sanctions: blocked assets and banned entry into the United States of persons responsible for or those who had directly or indirectly participated in the actions that undermined the democratic order in Ukraine and threatened peace, security, stability, sovereignty, and territorial integrity of Ukraine.

Executive Order 13661 of 16 March 2014, signed by the U.S. President, extended the scope of the state of emergency. Sanctions against a number of Russian officials imposed by the order included freezing their bank accounts, arresting their property, and refusing to issue them U.S. visas. While the EO listed seven names of those affected, the order allows the Treasury Secretary to add to the list per agreement with the Secretary of State.

On 20 March 2014, Executive Order 13662 introduced the sectoral sanctions against Russia. The decree imposed sanctions on individual entities operating in the military and other sectors of the Russian economy.

On 27 March 2014, Resolution A/RES/68/262 "Territorial integrity of Ukraine" was adopted at the UN General Assembly 68th session 80th plenary meeting. It called upon "all States, international organizations and specialized agencies not to recognize any alteration of the status of the Autonomous Republic of Crimea and the city of Sevastopol... and to refrain from any action or dealing that might be interpreted as recognizing any such altered status."

This resolution set the basis for the system of international legal acts on the annexation of Crimea and the related sanctions.

On 25 June 2014, the first European Union Regulation 692/2014 came into force, which banned the import of goods from Crimea and Sevastopol to the EU countries as well as the direct or indirect provision of financial services for such import, including the insurance and reinsurance services.

On 19 December 2014, the U.S. President signed another Executive Order, No 13685, directly related to the Russian occupation of Crimea. The decree prohibits the import or export of goods, services or technologies from or to Crimea, as well as any new investment in the Crimea region of Ukraine by a United States person, wherever located.

The Crimean sanctions prohibit flights of aircraft and calls by sea-going vessels, export and import of products and services to/from the territory of Crimea, including financial services, insurance, leasing, investment, tourism, lending, and contracts with enterprises operating under the jurisdiction of the RF on the territory of Crimea and so on



The sanctions, combined with the transport blockade, cutting off the electricity, gas, and water supply to the Crimean peninsula, forced the RF to incur unanticipated huge additional costs for the urgent purchase of ferries, construction of new port berths, the underwater power cable, the gas pipeline, and the Kerch Strait bridge

The Office of Foreign Assets Control (OFAC), a unit of the U.S. Department of the Treasury, supervises the administration and implementation of the sanctions.

Additionally, since the spring of 2014, the elements of the continental blockade of Crimea from mainland Ukraine have started being implemented (see the map).

From the end of 2015 to May 2018, the Crimean peninsula de facto turned into an island, creating an entirely new reality both for Crimea and for the RF.

From late 2015 to May-December 2018, when the motorway part of the Kerch bridge became operational, cargo between the RF and Crimea was delivered by sea only, while passengers – in roughly equal shares by sea and air via the Kerch Ferry Terminal and Simferopol airport, and only from the territory of the RF.

Only the passage of citizens and private cars with a capacity of up to 8 passengers is now allowed across the administrative boundary between Crimea and the Kherson region of Ukraine.

It is worth noting that, according to the Ministry of Resorts and Tourism of Crimea, before the occupation, in 2013, 66% of passengers arrived in Crimea by rail, 24% – by road, and 10% – by air. Passenger sea traffic was insignificant.

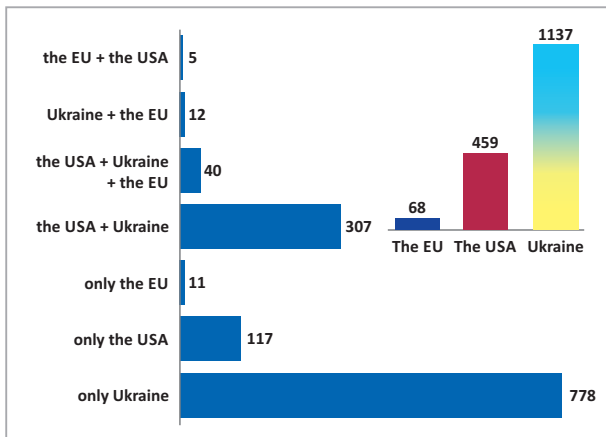
According to the Statistics Department of the Autonomous Republic of Crimea, in 2013, 70.8% of freight was carried by road, 27.3% – by rail, and 1.9% – by sea. The share of air transport was insignificant – 0.03%.

Therefore, the transport and infrastructure blockade, coupled with other sanctions, forced the occupying state to incur unanticipated huge additional costs for the urgent purchase of ferries and construction of new port berths, as well as the Kerch Bridge. In 2016, Russia was also forced to promptly build the underwater power cable and gas pipeline across the Kerch Strait.

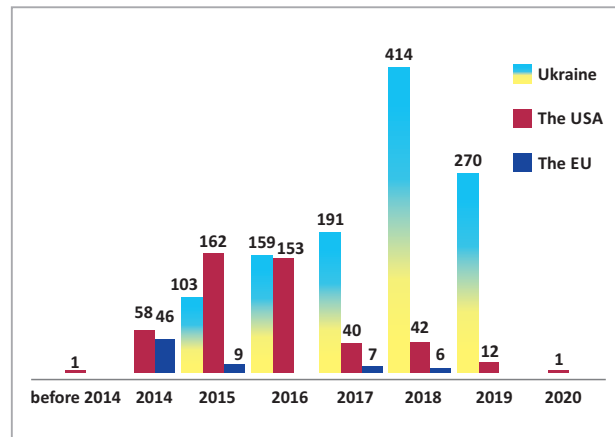


-  On 31 March 2014, the European Organisation for the Safety of Air Navigation (EUROCONTROL) banned flights to Crimea;
-  since April 2014, no water or natural gas has been supplied to the peninsula from mainland Ukraine;
-  since 30 April 2014, all border crossing and customs control points in all seaports and airports of the Crimean peninsula have been officially closed;
-  since 16 June 2014, all seaports of Crimea have been officially closed;
-  since December 2014, all freight and passenger rail services have been terminated;
-  since October 2015, as a result of the activist blockade, all road freight services have been terminated;
-  since November 2015, as a result of the activist blockade, the electricity supply to the peninsula has been cut off.

The diagrammatic map showing the chronology of imposing a blockade on the occupied Crimean peninsula in 2014-2015



The number of legal entities on the sanctions lists as of 1 February 2020. Chart 1



The trend in the number of legal entities added to the sanctions lists by year, as of 1 February 2020. Chart 2

The State of the Sanctions Regime as of 1 February 2020

U.S. sanctions over Russia's aggression against Ukraine have been imposed by the four presidential decrees (executive orders):

- EO 13660 of 06 March 2014;
- EO 13661 of 16 March 2014;
- EO 13662 of 20 March 2014;
- EO 13685 of 19 December 2014.

In the following years, new names were added to the U.S. sanctions lists (based on the decisions of the U.S. Department of the Treasury). The last update took place on 29 January 2020.

European sanctions have been imposed by the three EU Council regulations:

- № 269/2014 of 17 March 2014;
- № 692/2014 of 23 June 2014;
- № 833/2014 of 31 July 2014.

Ukrainian sanctions lists have appeared as decisions of the National Security and Defence Council and have been approved by decrees of the President with varying frequency since September 2015. The latest current decrees are:

- № 133/2017 of 15 May 2017;
- № 57/2018 of 06 March 2018;
- № 126/2018 of 14 May 2018;
- № 176/2018 of 21 June 2018;
- № 82/2019 of 19 March 2019.

In total, the lists of legal entities under the Ukrainian, U.S., and EU sanctions include 1,270 enterprises, political and military organisations¹.

1. The full database as of 1 February 2020 is available at the link <https://www.blackseanews.net/files/sanctions-01022020.pdf>.

On the U.S. Sanctions list, an additional 10 entities that are included in other sanctions programmes have been added to our database: TCO (Transnational Criminal Organizations Sanctions Regulations); Syrian Sanctions Regulations; CYBER2. These legal entities are also on the Ukrainian list.

As of 1 February 2020, the Ukrainian list includes 1,137 legal entities, the U.S. list – 469, the EU one – 68.

Chart 1 shows the overlaps between the lists in all combinations. They clearly show that it is too early to speak about the full synchronisation of the sanctions imposed by Ukraine, the USA, and the EU.

The first U.S. sanctions against legal entities over Russia's aggression against Ukraine were imposed by the United States on 20 March 2014.

The first legal entity was included in the EU sanctions list on 12 May 2014.

The first Ukrainian sanctions list was approved on 16 September 2015.

As of now, the latest entity added to the sanctions base is the Russian Transport Company Grand Service Express, a railway operator that offers passenger rail service between Russia and occupied Crimea over the Kerch Strait bridge, which was subject to U.S. sanctions on 29 January 2020.

In Chart 2, one can see an enterprise that was subject to sanctions before 2014. It is a Russian company that has been listed as a transnational criminal organisation by the U.S. TCO program since 2013 and was put on the Ukrainian list in 2018.

As of 1 February 2020, 1,270 legal entities are subject to Ukrainian, U.S., and EU sanctions in view of the occupation of Crimea and the RF's aggression against Ukraine:

- the Ukrainian list – 1,137,
- the U.S. list – 469,
- the EU list – 68



The enterprises on the sanctions lists registered on the territory of the Russian Federation account for:

- 76% – on the U.S. lists;
- 68% – on the Ukrainian lists;
- 44% – on the EU lists.

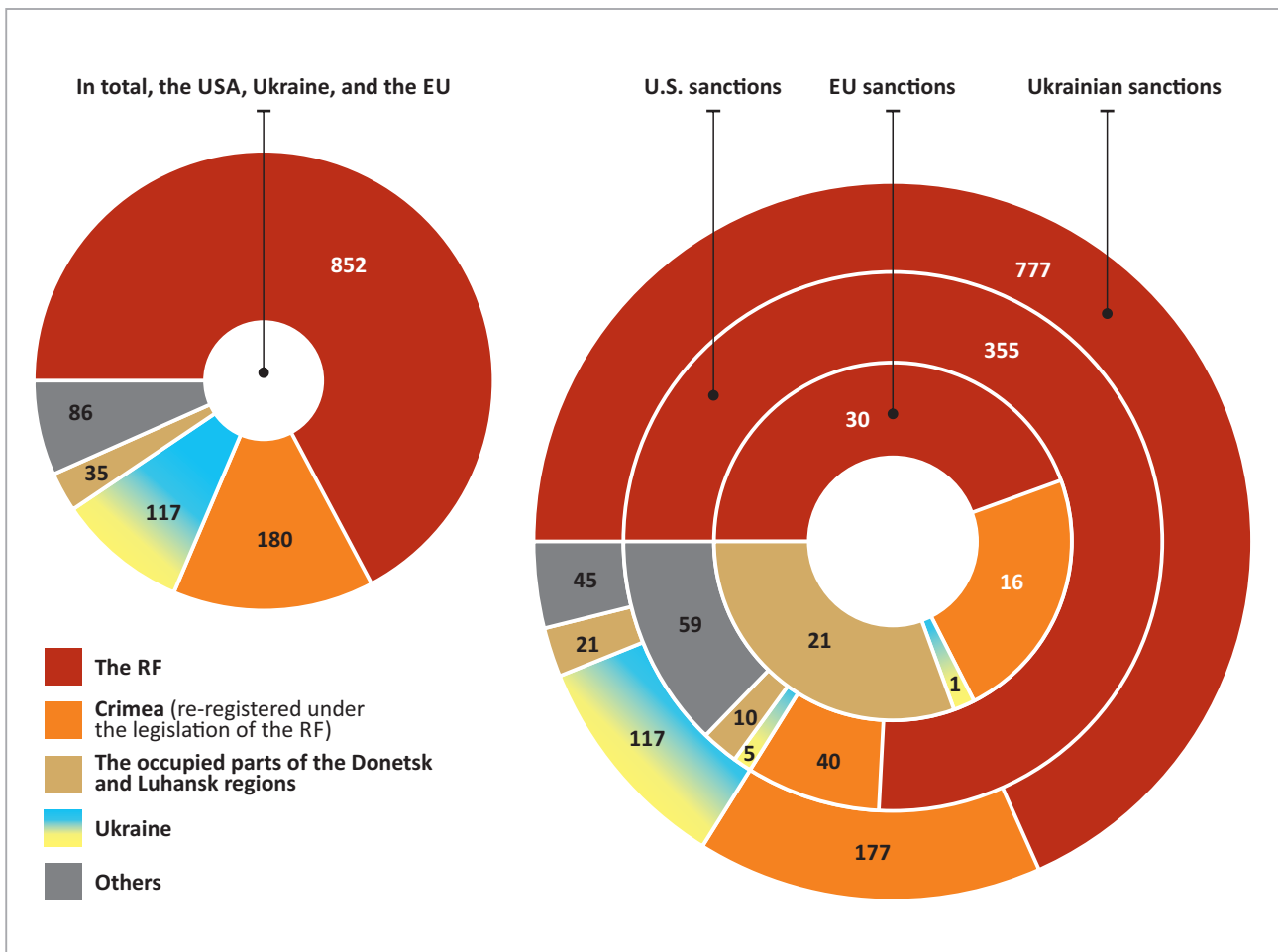
On the consolidated list of legal entities that are subject to the U.S., EU, and Ukrainian sanctions:

- 67% – are registered in the RF;
- 14% – are located in occupied Crimea and reregistered under the legislation of the RF;
- 9% – are registered in Ukraine and related in one way or another to the RF. There are 10% of such enterprises on the Ukrainian list. These include subsidiaries of Russian banks and numerous branches of Russian IT companies, which is logical in general;
- 7% – are registered in other countries, these are foreign, more often offshore, reincarnations of Russian enterprises;
- 3% – are registered in the occupied parts of the Donetsk and Luhansk regions. A significant proportion of them are political and military formations.

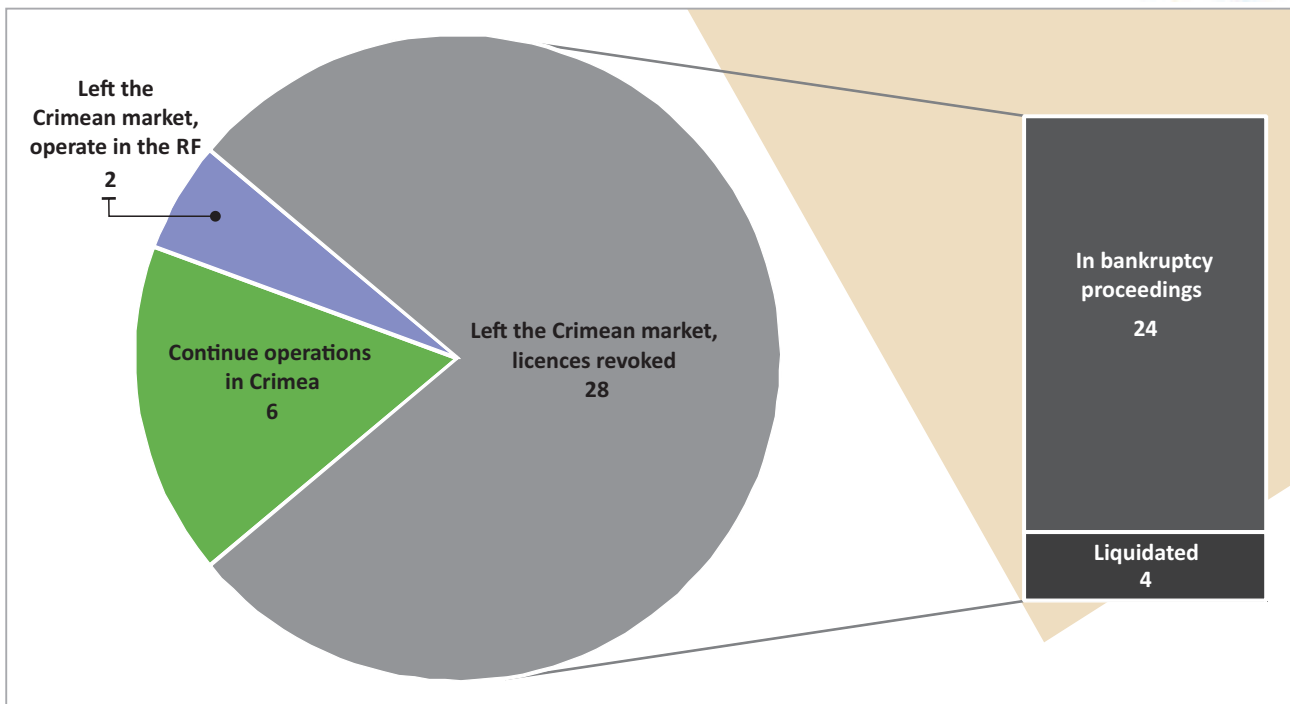
The above analysis shows that there are enormous opportunities to expand the sanctions against Russian enterprises over the aggression against Ukraine by synchronising the Ukrainian, U.S., and EU sanctions

Our research has shown that during the years of sanctions, only 88 (6.9%) of the companies included in the sanctions lists were liquidated. For the most part, some changes in the status of businesses are noticeable after U.S. sanctions are imposed on them.

With the liquidation of an enterprise subject to sanctions, its function, which was the grounds for sanctions, does not disappear – it is transferred to another legal entity. Out of the 88 liquidated legal entities, 32 have official successors, out of which only 11 are under sanctions.



The breakdown of legal entities on the U.S., EU, and Ukrainian sanctions lists by country and region of registration as of 1 February 2020. Chart 3



The plight of Russian banks in occupied Crimea in 2014 - 2019, as of January 2020, the number of banks

The Impact of Sanctions on the Crimean Banking

Before the occupation, Crimea and the city of Sevastopol had an extensive network of branches of commercial banks — the total of 67 banking institutions registered in mainland Ukraine had their branches on the peninsula — as well as 2 Crimean banks, The Black Sea Bank for Development and Reconstruction and Morskoy.

The occupying state planned to use Ukrainian financial institutions to mitigate its problems of the "transition period".

However, none of the Ukrainian banks with branches in Crimea consented to continue working in the occupied territory under the Russian legislation, so the Russian banks tried to fill the void.

Over the period of occupation, at different times, 34 Russian banks started operations in Crimea. In addition, 2 local banks began operations under the RF jurisdiction, bringing the total to 36.

As of the beginning of 2020, 28 banks have had their licences revoked. Out of these, 4 banks have already been liquidated, 24 are currently in bankruptcy proceedings.

2 Russian banks that left Crimea after a brief attempt at work are still operating in the RF.

As of 1 January 2020, only 6 Russian banks have remained on the peninsula. All of them are now under international sanctions.

Due to sanctions, the large Russian banks that used to operate in Crimea before the occupation, namely Sberbank, Alfa-Bank, and VTB, have since stopped operations there and do not intend to resume them.

The situation has made a number of Western businessmen, who had initially visited Crimea in search of investment opportunities, later retreat taking a wait-and-see position. There is no question that it has happened mainly due to the sanctions, because of which European banks cannot work with the banks operating on the peninsula.

There are only 6 Russian banks still operating in Crimea compared with 36 ones in the first years of the occupation. All of them are now under sanctions.

Banking sanctions make it impossible to invest in Crimea, even when it comes to private Russian investment, or use international payment systems and other financial services



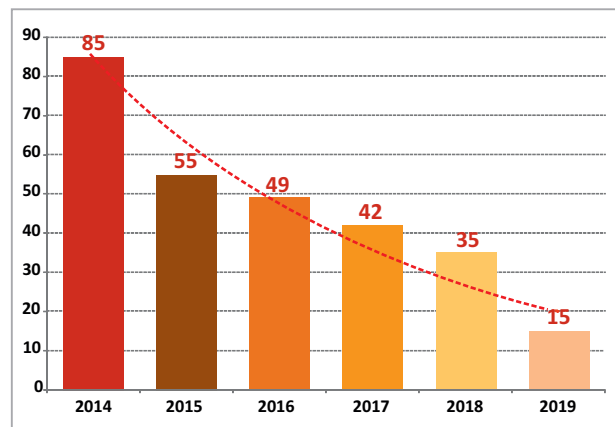
The Impact of Sanctions on Maritime Connections with the Occupied Crimean Peninsula

According to the monitoring, which has been conducted by the authors since the first days of the occupation of Crimea, in 2014-2019, significant changes took place in sea cargo links with ports of the Crimean peninsula as a result of international sanctions.

Over the 6 years of the occupation, the Monitoring Group of the Black Sea Institute of Strategic Studies and the www.blackseanews.net editorial team has "blacklisted" 143 vessels belonging to shipowners from 15 countries (except the RF) for entering the closed ports of the occupied Crimean peninsula.

The statistics for calls of foreign vessels, except the RF's ones, at the ports of the Crimean peninsula for 2019 are based on the monitoring data of the two independent groups, the www.blackseanews.net editorial team and the SeaKriMe Group of the Myrotvorets Center (myrotvorets.news/category/seakriMe). The authors express their gratitude and appreciation to the colleagues for the opportunity to verify the data and to be sure of the fact that the sanctions were indeed violated.

While in 2014, the first year of the occupation of



The trend in the number of sea-going vessels violating Crimean sanctions (except the RF). Chart 1

Crimea and the year of the imposition of sanctions, 85 vessels violated them, later the number of violators declined annually, and in 2019, there were only 15 such vessels, i.e. their number had decreased almost sixfold (See Table 1, Chart 1).

In 2019, only 15 foreign vessels (except the RF's ones) entered Crimean ports in violation of sanctions; in 2014, the first year of the occupation, there were 85 such vessels... The maritime traffic has come to an almost complete halt

The breakdown of vessels violating Crimean sanctions by shipowner's country of registration for 2014-2019. Table 1*

№	Country	Total	2014	2015	2016	2017	2018	2019
1	Latvia	1	1					
2	China	1		1	1			
3	Bulgaria	3	1	2	3	1		
4	Switzerland	1	1					
5	The UAE	1	1	1				
6	Singapore	2	2					
7	Germany	2	2	1				
8	Italy	3	3	1				
9	Syria	3			1	1	2	3
10	Egypt	6	1	1	2	2	3	1
11	Ukraine	7	5	2	2		2	
12	Romania	11	6	7	11	8	5	2
13	Lebanon	15	1	2	8	12	9	8
14	Greece	24	20	5	2	3	2	1
15	Turkey	63	41	32	19	15	12	
	Total	143	85	55	49	42	35	15

* the sum of the values in the rows of the table in different years need not equal the value in the column Total since annual numbers of vessels violating the regime of the occupied territory and international sanctions include some vessels that committed violations every year

This is the effect of the sanctions regime, the constant monitoring of its violations, and the reluctance of shipowners to be on public sanctions lists. This process has been significantly influenced by the Ukrainian law enforcement agencies' willingness to arrest ships and prosecute shipowners, as demonstrated by some examples, as well as by the ongoing work of the Ukrainian diplomacy, civil society, and media in the respective shipowners' countries of registration.

The dramatic decrease in the number of violators has been caused primarily by the fact that vessels belonging to shipowners from Greece stopped entering Crimean ports in 2015, from Turkey and Romania – in 2019. In previous years, the vessels belonging to shipowners from these countries accounted for the largest number of violators.

In 2019, the vast majority of remaining violators (12 out of 15) were vessels belonging to shipowners from the Middle East countries – Lebanon, Syria, and Egypt.

The breakdown of vessels violating sanctions by flag state is given in Table 2.

For reference. A shipowner's country of registration and a ship's flag state are not always the same thing. For example, most vessels violating sanctions that belong to shipowners from Greece, Turkey, and Romania, are registered under "flags of convenience" – mainly those of African countries or exotic islands,

The breakdown of vessels violating sanctions by flag state for 2014-2018, and separately for 2018 and 2019. Table 2*

No	Flag	2014-18	2018	2019
1	Antigua & B	1		
2	Cambodia	1		
3	Cayman Is	1		
4	China	1		
5	Cyprus	1		
6	Italy	1		
7	Portugal	1		
8	Saint Vincent	1		
9	Tuvalu	1		
10	Ukraine	1		
11	Greece	2		
12	Korea	2		
13	Singapore	2		
14	Sri Lanka	2		
15	Vanuatu	2		
16	Syria	7	7	6
17	Bulgaria	3		
18	Marshall Isl	3		

In 2014, the flags of 32 countries, except Russia, were seen in Crimean ports, in 2017 – 14, in 2018 – 7, in 2019 – of 6 countries. This is a cumulative effect of international sanctions – the sea blockade around occupied Crimea is tightening

where registration requirements for the technical condition of vessels are less stringent and the cost of the procedure is lower.

As early as the first years of the occupation, the EU and NATO member states' flags disappeared from the ports of Crimea. They were last seen on 18 March 2017 in Kerch on the mast of the Bulgarian gas tanker BRIZ (IMO: 8899720), which was transporting liquefied gas to Bulgaria.

The flags of Greece, Turkey, Cyprus, Italy, Portugal, and Malta had disappeared from Crimean ports much earlier: the flag of Greece was last seen in Crimea on 27 July 2015, of Turkey – on 6 April 2015, of Cyprus – on 26 March 2015, the flag of Italy – on 5 October 2014, of Portugal – on 17 September 2014, of Malta – on 19 August 2014.

No	Flag	2014-18	2018	2019
19	Liberia	3		
20	Cook Is	3		
21	DR Congo	4		
22	Turkey	4		
23	Malta	5		
24	Belize	5		1
25	Moldova	6		
26	Saint Kitts	6		
27	Mongolia	7		1
28	Tanzania	10	3	
29	Palau	11	4	
30	Comoros	12	4	1
31	Panama	12	1	
32	Sierra Leone	15	3	
33	Togo	24	12	3
34	Lebanon			2
	No Flag		7	3

* The sum of the values in the rows does not equal the actual number of vessels since several vessels changed their flag states a few times a year



Other EU and NATO member states have escaped this precarious fate. Of course, this is not always the case with the ownership of vessels violating sanctions.

Moreover, the flags respected in the maritime world – those of Panama, Singapore, Liberia – have completely or almost completely disappeared from Crimean ports. The decrease in the number of vessels violating Crimean sanctions in 2017-2019 was caused to a large extent by the activity of the Permanent

Mission of Ukraine to the International Maritime Organization (IMO), which operates within the Embassy of Ukraine in the United Kingdom.

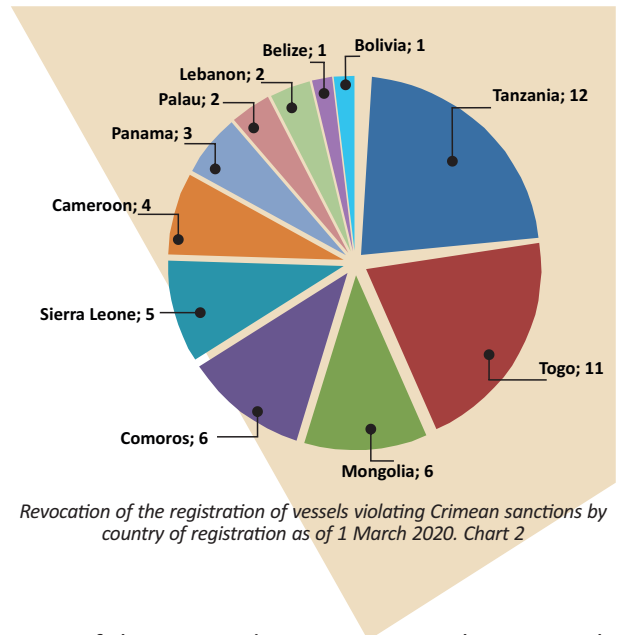
Based on the up-to-date information from the Ukrainian monitoring groups, the Mission of Ukraine to the IMO provided the maritime registration authorities of the respective countries with regular information on violations of Crimean sanctions by vessels registered under the flags of these countries (see Table 2).

The vessels violating sanctions that had their registration revoked in the period from 2017 to February 2020.
Table 3

No	Name	IMO	Date
Flag: Tanzania			
01	GENERAL	7218400	02.11.17
02	ALEKSE	8012114	15.12.17
03	CRYSTAL GALAXY	8418356	27.12.17
04	ERKE	7014581	27.12.17
05	GRACE A	8403337	27.12.17
06	JAWDAT M	7615232	27.12.17
07	NARSIS	8204119	27.12.17
08	STARSHINA DEROV N.G.	8872617	27.12.17
09	GOLDEN SEA	8800298	26.01.18
10	YARA J	8001517	03.02.18
11	LITTLE WIND	8863018	11.10.18
12	MAESTRO	8810700	11.10.18
Flag: Togo			
01	ADNAN H	8215649	13.02.18
02	RAMZI	7700207	13.07.18
03	RANDA	8414283	18.09.18
04	KAPTAN HASAN UZUN	8203622	18.09.18
05	BELLATRIX	8230405	12.12.18
06	YARA J	8001517	11.01.19
07	PAL PALYCH	8315499	19.06.19
08	ALIANCA	7392593	19.06.19
09	ANTALYA	7615232	01.07.19
10	RANI	7700207	25.07.19
11	NARSIS	8204119	01.08.19
Flag: Mongolia			
01	ALTERA 1	8012114	10.08.17
02	GOLDEN SEA	8800298	10.08.17
03	LEONARDO	7529641	10.08.17
04	VENICE	9005479	10.08.17
05	MAESTRO	8810700	10.08.17
06	RANDA	8414283	14.08.19

No	Name	IMO	Date
Flag: Comoros			
01	DALLAS	7723986	09.07.18
02	CAPT ABEDA	7610270	16.08.18
03	NATALIA	8203622	20.12.18
04	PRINCESS MARIA	7528556	19.02.19
05	FERAS	9039810	17.02.20
06	HAWAR	9142758	17.02.20
Flag: Sierra Leone			
01	NADALINA	8215754	11.06.18
02	CRYSTAL GALAXY	8418356	15.06.18
03	SNOW WHITE	7422180	22.06.18
04	GEORGIANA H	8911413	17.08.18
05	SKY HOPE	7702920	18.08.18
Flag: Cameroon			
01	PERESVET	8919879	26.08.19
02	NEZHA	7392593	13.10.19
03	PAWELL	8315499	03.02.20
04	ANTALYA	7615232	28.02.20
Flag: Panama			
01	STAR OF SEA	9120736	13.02.19
02	LITTLE WIND	8863018	09.05.19
03	VARYAG	8019887	10.06.19
Flag: Lebanon			
01	GRACE A	8403337	26.09.19
02	RANI	7700207	03.10.19
Flag: Palau			
01	JAWDAT M	7615232	31.08.18
02	ARKADAS	8881266	11.01.19
Flag: Belize			
01	FEDERAL ADI	8321931	12.02.20
Flag: Bolivia			
01	BELLATRIX	8230405	21.02.20

As of 1 March 2020, maritime administrations had revoked the registration of vessels violating Crimean sanctions: Tanzania – 12 vessels, Togo – 11, Mongolia and Comoros – 6 vessels each, Sierra Leone – 5, Cameroon – 4, Panama – 3, Palau – 2, Lebanon – 2, Belize and Bolivia – 1 vessel each



Revocation of the registration of vessels violating Crimean sanctions by country of registration as of 1 March 2020. Chart 2

As a result of appeals from the Mission of Ukraine to the IMO, from mid-2017 to February 2020, 53 decisions were made to revoke the registration of vessels violating Crimean sanctions: 13 decisions – in 2017, 18 – in 2018, 16 – in 2019, and 6 – in January-February 2020 (See Table 3).

These decisions were taken in 11 countries and concerned 35 vessels violating sanctions: 20 such vessels had their registration revoked once; 13 vessels – twice; 1 vessel – three times, and 1 vessel – four times.

For example, one of the "champions", the JAWDAT M dry cargo ship (renamed ANTALYA on 1 October 2018), IMO 7615232, was stripped of the Tanzanian flag on 27 December 2017, the Palauan flag – on 31 August 2018, the Togolese flag – on 1 July 2019, and finally of the Cameroon flag – on 28 February 2020 (see the photo on the right).

Another "blacklist champion", the RAMZI dry cargo ship (renamed RANI on 1 September 2018), IMO 7700207, was stripped of its flags for entering

ports of the occupied Crimean peninsula: on 13 July 2018 – of the Togolese flag under the name RAMZI, on 25 July 2019 – of the Togolese flag under the name RANI, on 3 October 2019 – of the Lebanese flag (see the photo on the left).

Of course, as the foreign merchant fleet is leaving the ports of the occupied peninsula, it can only be replaced with ships sailing under the flag of the RF. However, this fleet has become unnecessary even for transportation from the RF since the bridge across the Kerch Strait can be used for freight traffic.

The impossibility of legal maritime export and import due to sanctions has rendered the whole port industry of occupied Crimea unnecessary for the economy



The Lebanese dry cargo ship RANI (IMO 7700207) arrives in occupied Feodosia on 30 September 2019 to take on a cargo of soda ash for Egypt. Stripped of the Lebanese flag on 3 October 2019. The photo by the SeaCrime Group of the Myrotvorets Center



The Romanian JAWDAT M dry cargo ship (since 1 October 2018 – ANTALYA), IMO 7615232, takes on scrap metal in occupied Kerch on 17 March 2018; stripped of the flags of Tanzania, Palau, Togo, and Cameroon for entering Crimean ports. The photo from the BlackSeaNews archive



Missed Deadlines for the Production of Karakurt Missile Corvettes at the Morye Shipyard in Feodosia

On 21 June 2018, the proposals for new Crimean sanctions¹ were presented at a press conference at the UNIAN news agency (Kyiv). They were also formally submitted to the U.S. and EU embassies. The proposals read as follows:

The Leningrad Shipyard Pella first became a so-called "curator" and then a "leaseholder" of the Morye shipyard that is owned by the state of Ukraine (Feodosia, the Autonomous Republic of Crimea). After the occupation of Crimea, the Morye shipyard was seized, expropriated, and "transferred" into the federal ownership of Russia. On 15 November 2016, the Morye shipyard was leased to the St. Petersburg's Pella shipyard until the end of 2020.

Currently, the Russian Pella shipyard is building three new Project 22800 inner maritime zone missile corvettes (codename Karakurt), small-size missile ships according to the Russian classification, at the Morye shipyard.

Even before the "official lease" of the Morye shipyard, on 10 May 2016, the Pella shipyard started building Shtorm, the first in a series of 3 missile corvettes of the new Project 22800 (codename Karakurt), for the Black Sea Fleet of the Russian Federation, as part of the Russian state defence contract. The vessel is scheduled to be commissioned in 2019.

On 17 March 2017, the shipyard began the construction of Okhotsk, the second missile ship in that series, and on 19 December 2017 – Vikhr, the third corvette, both to be completed in 2019.

It is worth mentioning that since 10 March 2014, the Pella shipyard has owned Germany's J.J. Sietas Shipyard through the subsidiary Pella Sietas GmbH, Neuenfelder Fährdeich 88, 21129 Hamburg, www.pellasietas.com (in Russian: ОАО «Ленинградский судостроительный завод «Пелла»).

1. <https://press.unian.ua/press/10161413-u-maydani-zakordonnih-sprav-fiksuyutaktivizaciyu-rosiyeyu-sprob-postaviti-pid-sumniv-efektivnist-sankciy-proti-neji-video.html>

2. Details: *New Economic Sanctions Against the RF in Connection with its Illegal Activity in Occupied Crimea* <https://www.blackseanews.net/en/read/142641>

Россия, 187330, Ленинградская обл., Кировский р-н, г. Отрадное, ул. Центральная, д. 4. Тел.: +7 (812) 3364066, тел/факс: +7 (81362) 4-01-82, E-mail: mail@pellaship.ru, <http://www.pellaship.ru>.

Sanctions proposals by the Monitoring Group: blocking all Pella's assets and prohibiting U.S. and EU businesses from any collaboration with the OAO Leningrad Shipyard Pella².

Afterwards, events unfolded as follows.

The first of the three "Feodosia Karakurts" – the Kozelsk small-size missile ship, yard number 254 (during laying down it was named Shtorm), was laid down on 10 May 2016, it was scheduled to be commissioned into the Black Sea Fleet in 2019, and was actually launched on 9 October 2019 in an unfinished condition.

On 17 October 2019, the GERMES tug (IMO 8920945) began towing the Kozelsk small-size missile ship from the Morye shipyard in Feodosia across the Kerch Strait to the Taganrog Bay of the Sea of Azov, where on 19 October it handed the towing over to the river tugs KAPITAN SHLYGIN (MMSI 273311220) and REYDOVIY 13 (MMSI 273360340), which both continued to tow it to Volgograd, and the latter – further to Kazan, where the Kozelsk small-size missile ship was transferred to other vessels to be towed up the Volga-Baltic Waterway (passing from the Rybinsk Reservoir through Lake Beloye, Lake Onega, the Svir River, Lake Ladoga, the Neva River, see the map on p. 13). On 16 November 2019, the Kozelsk small-size missile ship was delivered to the Pella shipyard in Leningrad Oblast. The towing operation took 32 days.

The Okhotsk small-size missile ship, yard number 255 (during laying down it was named Tsiklon), was laid down on 17 March 2017. It was scheduled to be commissioned into the Black Sea Fleet in 2019 and was actually launched on 29 October 2019. It was immediately towed to Rostov-on-Don by the ANTEY tug (IMO 8020147), arrived at the Alexandrovsky

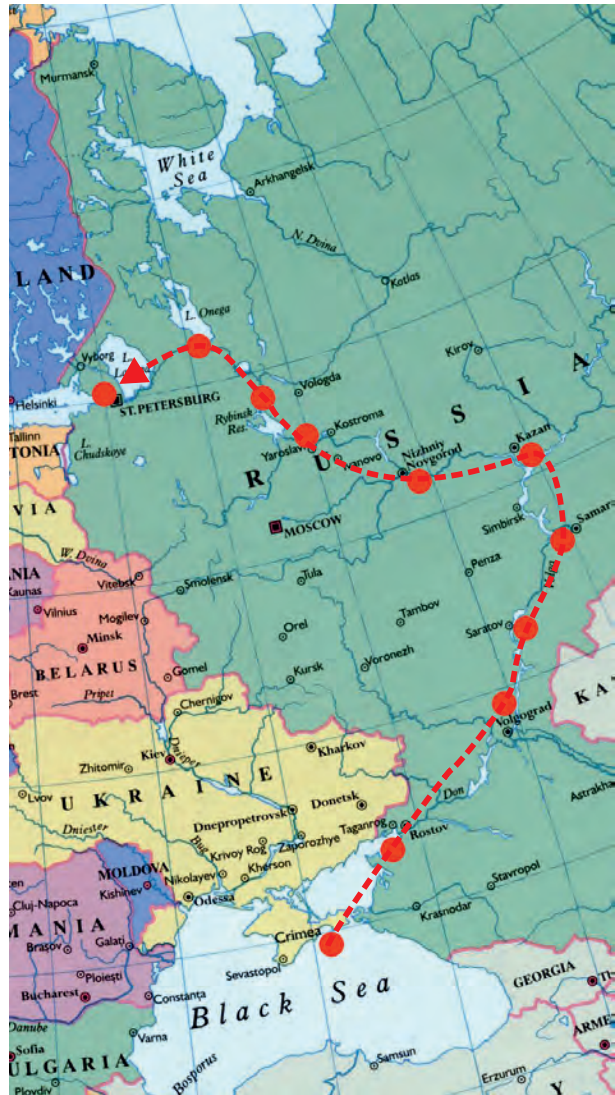
The threat of sanctions has led to the suspension of the construction of the missile corvettes for the RF's Black Sea Fleet at the seized Crimean Morye shipyard and the sudden redeployment of the unfinished hulls of these ships

roadstead, the Don River, on 2 November 2019, and on 6 November, the Okhotsk small-size missile ship was delivered for a temporary winter holding anchorage to the Aksay boat basin of the Port of Rostov-on-Don (the 2nd cargo area, 17 Levoberezhnaya St., stanitsa Olginskaya, Aksaysky District of Rostov-on-Don, the left bank of the Don River).

The Vikhr small-size missile ship, yard number 256 (the name was given during laying down and so far has not been changed), was laid down on 19 December 2017, launched on 13 November 2019. Almost immediately, on 16 November 2019, the GERMES tug (IMO 8920945) began towing the Vikhr small-size missile ship from the Morye shipyard in Feodosia to Rostov-on-Don. On 20 November, the Vikhr small-size missile ship was delivered for a temporary winter holding anchorage to the Aksay boat basin of the Port of Rostov-on-Don, next to the Okhotsk small-size missile ship.

This means that in order to avoid international sanctions, the Leningrad Shipyard Pella decided to suspend the construction of the three missile corvettes of the Karakurt Project simultaneously in October 2019, a year before the lease term expires; and it launched unfinished hulls of varying degrees of readiness and organised their towing to the Pella shipyard.

Note that the towing of the second and third ships started at a time when it was already clear that they would not be delivered to Leningrad oblast before the RF's inland waterways were closed to navigation (usually the navigation closes in mid-November). That is, the two unfinished corvettes instead of staying in winter on the covered ways of the Morye shipyard in Feodosia will winter in the water area of the Don River, which will be frozen until April 2020, i.e. for almost six months. They will be able to reach their destination no earlier than mid-May 2020 after the navigation through the locks of the Volga-Baltic Waterway opens.



The towing route of the unfinished missile corvettes from the Morye shipyard in Feodosia, in occupied Crimea, to the Pella shipyard near St. Petersburg up the rivers of the RF

Thus, even the mere threat of sanctions has led to the suspension of the missile corvettes construction at the seized Morye shipyard in Feodosia and to an increase of at least half a year in the construction time of these corvettes, which should have strengthened the missile capabilities of the RF's Black Sea Fleet.



The towing operation of the unfinished Kozelsk missile corvette from the Morye shipyard in occupied Feodosia, the Don River, Rostov-on-Don, 21 October 2019. The photo from the BlackSeaNews archive



The unfinished Vikhr and Okhotsk missile corvettes winter on the Don River, Rostov-on-Don, December 2019. The photo from the BlackSeaNews archive



The Imposition of U.S. Sanctions against Russian Plants over the Production of Warships in Crimea

During 2018, numerous reports on the construction of warships at the seized Crimean Zaliv shipyard and other enterprises were published¹. The publications mentioned the following:

PAO Yaroslavsky Shipbuilding Plant. In July 2018, the diving boat Vodolaz Kuzminykh of Project A160-YaR was completed at the Morye shipyard. The boat's hull was built at the Yaroslavsky Shipbuilding Plant and in the autumn of 2016 transferred to Feodosia for completion. The Yaroslavsky Shipbuilding Plant is the A160-YaR project developer.

AO Zelenodolsk Shipyard Plant, named after A.M. Gorky, the Republic of Tatarstan, part of the AO Ak Bars Holding company. It is one of the largest ship manufacturers in Russia and has surfaced in Crimea as a collaborator with Feodosia's Sklopastic.

However, the Zelenodolsk Shipyard Plant's main "success" on the peninsula is its illegal seizure of the property of the Kerch Zaliv shipyard in August 2014, where many ships for the Russian Navy are now being built.

PAO Zvezda (St. Petersburg) is the only RF's manufacturer of diesel engines for power plants of Project 22800 Karakurt small-size missile ships that are being built at the Morye shipyard.

AO Kontsern Okeanpribor (St. Petersburg) is Russia's leading enterprise in the development and supply of hydroacoustic weapons to the Russian Navy and for export. In 2017, the Morye shipyard began the construction of an experimental multi-role high-speed vessel of Project 03550 Sleming-2, which is being built under a state contract for the experimental development concluded between the Ministry of Industry and Trade of the Russian Federation and AO Kontsern Okeanpribor.

Afterwards, events unfolded as follows.

On 15 March 2019, the U.S. Department of the Treasury announced the imposition of sanctions on the following enterprises²:

1. *Russian Defence Entities that Collaborate with the Seized Crimean Enterprises – a Prospective Sanctions List* – <https://www.blackseanews.net/en/read/147170>

2. *Treasury Sanctions Russia over Continued Aggression in Ukraine* – <https://home.treasury.gov/news/press-releases/sm629>

Today's action also targets six Russian defense firms with operations in Crimea, several of which misappropriated Ukrainian state assets to provide services to the Russian military. Four of these entities are being designated pursuant to E.O. 13662 for operating in the defense and related materiel sector of the Russian Federation economy, and two entities are being designated pursuant to E.O. 13685 for operating in the Crimea region of Ukraine.

Yaroslavsky Shipbuilding Plant is a Russian state-owned shipbuilding plant that has built vessels for Russia's Federal Security Service (FSB) and the Russian Ministry of Defense. Yaroslavsky Shipbuilding Plant is also the project developer for a naval vessel that was completed at the Federal SUE Shipyard "Morye" in Crimea. Yaroslavsky Shipbuilding Plant is being designated pursuant to E.O. 13662 for operating in the defense or related materiel sector of the Russian Federation economy.

Zelenodolsk Shipyard Plant, named after A.M. Gorky, is one of the largest ship manufacturers in Russia and has produced missile frigates and corvettes for the Russian Navy. The Zelenodolsk Shipyard Plant has collaborated with Crimea-based enterprise Sklopastic, which was unlawfully nationalized by the Russian government following its illegal invasion of Crimea in 2014. The Zelenodolsk Shipyard Plant is being designated pursuant to E.O. 13662 for operating in the defense and related materiel sector of the Russian Federation economy.

AO Kontsern Okeanpribor (Okeanpribor) is a producer of hydroacoustic equipment and has supplied components to the Russian Navy. Okeanpribor has also collaborated on a naval project at the Federal SUE Shipyard "Morye" in Crimea. Federal SUE Shipyard "Morye" was designated by OFAC on September 1, 2016. Okeanpribor is being designated pursuant to E.O. 13662 for operating in the defense and related materiel sector of the Russian Federation economy.

PAO Zvezda (Zvezda) is a supplier of diesel engines to the Russian Navy. Zvezda has also supplied components for Russian naval vessels that were being built at the Federal SUE Shipyard "Morye" in Crimea. Zvezda is being designated pursuant to E.O. 13662 for operating in the defense and related materiel sector of the Russian Federation economy.

The imposition of sanctions has complicated military production in Crimea. Since the suspension of the construction of the corvettes at the Morye shipyard, the Zaliv shipyard seized by the Russian Zelenodolsk Shipyard Plant (Tatarstan) has remained the main military shipbuilder



The Pavel Derzhavin corvette of Project 22160 (yard number 163), laid down on 18 February 2016, the completion of construction is scheduled for 2020, is being completed afloat at the dockside at the Zaliv shipyard, May 2019. The photo from the BlackSeaNews archive



The Sergey Kotov corvette of Project 22160 (yard number 164) is under construction on the open slipway at the Zaliv shipyard. It was laid down on 8 May 2016, the completion deadline was missed, February 2020. The photo from the BlackSeaNews archive

Of course, military production at Crimean plants has not stopped. Since the unplanned suspension of the construction of the missile corvettes at the Morye shipyard in Feodosia (see pages 12-13), the Zaliv shipyard in Kerch has remained the only Crimean plant where a large-scale military shipbuilding programme continues.

As of 1 June 2018, as part of its state defence contract, the Zelenodolsk Shipyard Plant is building the following vessels for the Russian Black Sea Fleet at the Zaliv shipyard:

three off-shore maritime zone missile corvettes of the new project 22160:

- the main ship of this project, Vasily Bykov, had been completed and on 25 March 2018, it headed from Kerch to Novorossiysk for state testing (in December 2018, it was commissioned into the Black Sea Fleet of the RF);
- the missile corvette Pavel Derzhavin laid down on 18 February 2016 is currently under construction, it is anticipated to be launched in 2019, the completion of construction is scheduled for 2020;

- the missile corvette Sergey Kotov was laid down on 8 May 2016. It is currently under construction and is anticipated to be launched in 2019, the completion of construction is scheduled for 2020;

three inner maritime zone missile corvettes of the new Project 22800 (codename Karakurt): the Tsiklon corvette was laid down in the summer of 2016; the contracts have been signed for the Passat and Briz corvettes.

At the same time, the two cable vessels of Project 15310, Volga and Vyatka, are now being constructed for the Black Sea Fleet of the Russian Federation. Those are large vessels with a deadweight of 8,000 tons, a length of 140 metres, and a width of 19 metres, whose purpose is to listen to or damage international submarine communication cables in the Arctic waters.

In addition, Zaliv is currently constructing for the Black Sea Fleet of the RF two military tankers (replenishment vessels of Project 23131) and three small hydrographic vessels of Project 19910 laid down in 2016 and early 2017.



In the photo: on the right, the Pavel Derzhavin off-shore maritime zone corvette of Project 22160 is being completed afloat at the dockside at the Zaliv shipyard; on the left, next to it, the rescue vessel Spasatel Ilyin of Project MPSV07 is being completed, February 2020. The photo from the BlackSeaNews archive



The Tsiklon missile corvette (yard number 801, Project 22800 Karakurt) is under construction on the open slipway at the Zaliv shipyard, a gun has been mounted, navigation equipment is being installed; the construction is proceeding as scheduled – it is expected to be completed at the end of 2020. The photo from the BlackSeaNews archive, February 2020

All that poses a threat not only to Ukraine but also to practically all the EU states and the Mediterranean.

With that, we must point out that at 364 metres long and 60 metres wide, Zaliv has one of the largest shipbuilding docks in Europe that has no equivalents in the RF. Therefore, we anticipate that its use for the needs of the Russian military will continue growing.

As of 1 January 2020, the programme to construct warships for the Black Sea Fleet of the RF at the Zaliv shipyard, as part of the Zelenodolsk Shipyard Plant's state defence contract, is as follows:

- the Pavel Derzhavin corvette launched on 21 February 2019 is being completed afloat, the completion is scheduled for 2020; it has become the first warship to be built entirely at the Zaliv shipyard;
- next to it, at the dockside, the rescue vessel Spasatel Ilyin (yard number 113) of Project

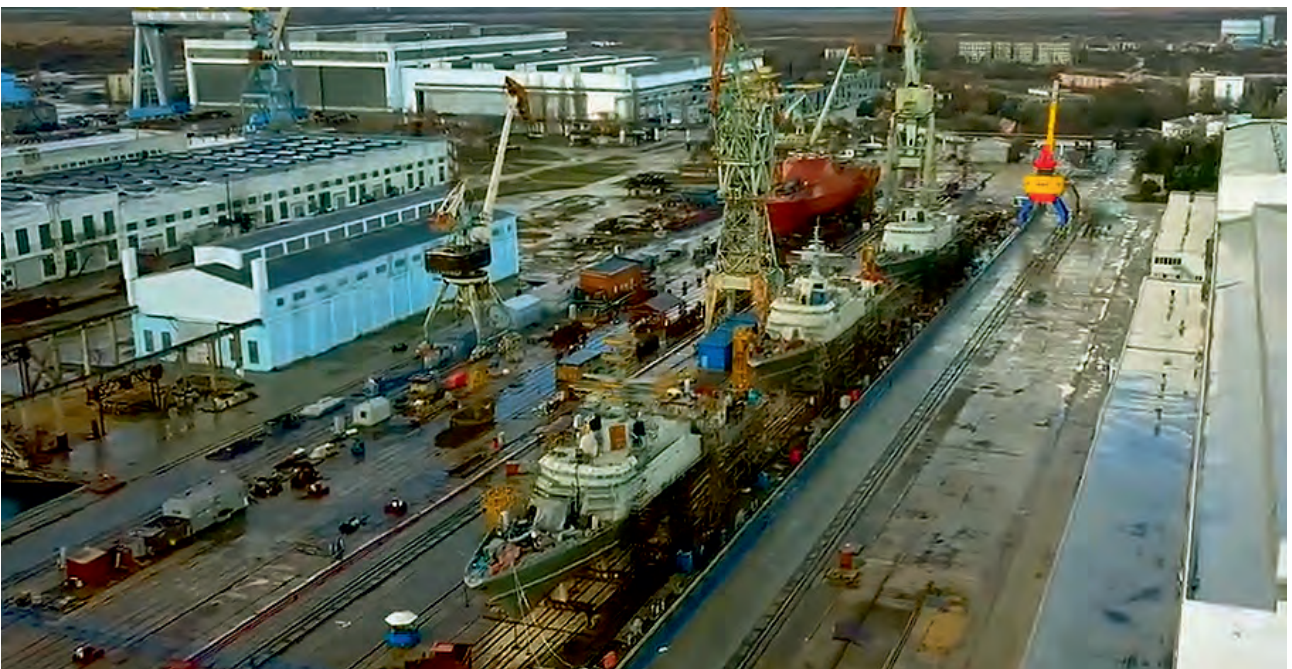


The dry dock of the Zaliv shipyard. The construction of the two cable vessels of Project 15310, Volga and Vyatka, for the Black Sea Fleet of the RF. The deadweight – 8,000 tons, the length – 140 metres, the width – 19 metres, the completion is rescheduled for 2021-2022. The photo from the BlackSeaNews archive, January 2020

MPSV07 is being completed;

- the Sergey Kotov corvette is under construction on the slipway, the launch scheduled for 2019 did not take place, the completion of construction in 2020 will also not take place as scheduled;
- all the three missile corvettes of Project 22800 Karakurt – Tsiklon, Askold, Amur (yard numbers 801, 802, and 803) – are under construction on open slipways, with all the hulls formed and equipment being installed; a gun has been mounted on the Tsiklon corvette, navigation equipment is being installed;
- the construction of the Volga and Vyatka cable ships of Project 15310 is proceeding slowly due to the complexity of import substitution of foreign equipment.

The RF has ambitious plans and hopes for the Zaliv shipyard...



A general view of the open slipways of the Zaliv shipyard. In the foreground, from left to right, are the three missile corvettes, Tsiklon, Askold, Amur, of Project 22800 Karakurt. In the background is the construction of the Sergey Kotov corvette of Project 22160, January 2020. The photo from the BlackSeaNews archive



A panoramic view of the Zaliv shipyard facilities. On the right-hand side of the photo is one of the largest shipbuilding docks in Europe: at 364 metres long and 60 metres wide, it has no equivalents in the RF. It is there that in May 2020, the construction of the two helicopter-carrying amphibious assault ships, Sevastopol and Vladivostok, for the Black Sea Fleet of the RF is scheduled to begin. The photo from the BlackSeaNews archive, February 2020

In May 2020, for the first time in the history of the Russian Navy, the construction of two Landing Helicopter Docks carrying 20 attack helicopters and 1000 marines is scheduled to begin at the seized Zaliv shipyard

The displacement of the ships of the new for the Russian Navy class will be up to 25 thousand tons, the maximum length – about 220 m. One such amphibious assault ship will carry more than 20 heavy helicopters on board, will have a well dock for amphibious boats, and will be able to carry about 1000 marines.

It is expected that they will be named Sevastopol and Vladivostok – the two similar in class French Mistral ships, the sale of which to Russia was cancelled after the Russian aggression against Ukraine began, had the same names.

The presence of such amphibious assault ships in the Black Sea Fleet of the RF will greatly enhance the Russian influence on the military-strategic situation in the Black Sea-Mediterranean region.

Note that the construction of warships of this class will require production cooperation with hundreds of plants in Russia.

The related companies in this project will have to cooperate with the two plants that are already under international sanctions, including the U.S. sanctions – the Zaliv shipyard in Kerch and AO Zelenodolsk Shipyard Plant, named after A.M. Gorky, the Republic of Tatarstan, part of the AO Ak Bars Holding company.

The construction of warships of this class will require cooperation with hundreds of plants in Russia



One of the possible prototypes of the first helicopter-carrying amphibious assault ships in the Russian Navy, which are to be built at the facilities of the seized Zaliv shipyard in Kerch, at the Army-2015 exhibition. The photo by Artem Tkachenko, <https://de.wikipedia.org/wiki/Lawina-Klasse>



The Peculiarities of Economic Processes in Russia and Occupied Crimea under Sanctions

During the period of the occupation of Crimea, the authors repeatedly referred in their studies not only to the analysis of particular industries or types of economic activity but also to the peculiarities of general processes in the Crimean economy under sanctions¹.

At the time of this publication, the economic processes on the peninsula (for all their "exoticism" in the world of the market economy) have already become established for the long run. As long as there is the occupation and sanctions regime, no fundamental changes can be expected.

It is worth reminding that the first year of the occupation – until the summer of 2015 – was the year of certain "imperial romanticism". It was characterised by the "Russian nationwide fountain of optimism and

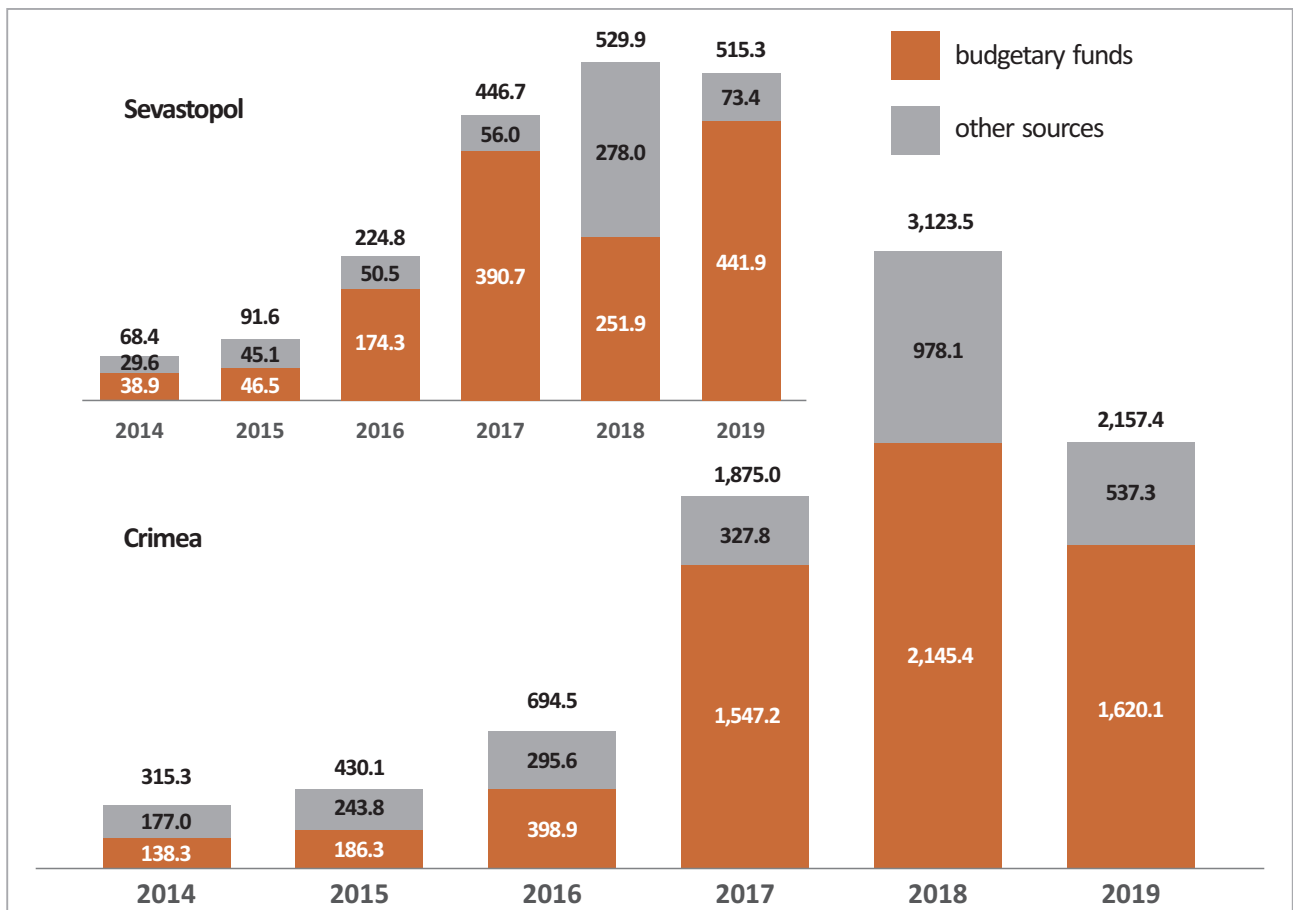
investment ideas" of creating a "new showcase for Russia" on the seized peninsula – with "Silicon Valley", nanotechnology, a gambling zone, a "flagship" free economic zone, and 7-star resorts... For this purpose, on 31 March 2014, the "Ministry of Crimean Affairs" was created, and later thousands of investment scouts from large and small corporations from Russia and other countries went to the peninsula.

In fact, as our studies² show, from the outset, the main objective of the Russian Federation was to create in Crimea an unprecedented symbiosis of a huge military base and an economically self-sufficient region in order to minimise the budget expenditure of the Russian Federation, rather than an "investment paradise" for the new citizens.

The regime of international sanctions and blockade (see pp. 3-6) was a huge surprise for the Russian authorities. As early as the first half of 2015, they realised the fallacy of their original concept, and on 15 July 2015, the "Ministry of Crimean Affairs" was dissolved. One year later, on 28 July 2016, the status of "new Russia" was lowered – the "Crimean Federal District", which had been created on 21 March 2014, on the third day after the act of annexation, was liquidated.

1. T. Guchakova, A. Klymenko. "The Socio-Economic Situation in the Occupied Crimea in 2014-2018". – Kyiv. 2019. "The Gray Zone". The Crimean Peninsula: The Four Years of Occupation". (The annual report "Occupied Crimea under Sanctions and Blockade in 2014-2017"). Edited by A. Klymenko. – Kyiv. 2018.

2. A. Klymenko. T. Guchakova. "The Militarization of Crimea as a Pan-European Threat". Based on the data gathered by the joint Monitoring Group of the Maidan of Foreign Affairs, the Black Sea Institute of Strategic Studies, and the BlackSeaNews online portal (www.blackseanews.net). With contributions by O. Korbut. Kyiv. 2019



Investment in fixed capital in occupied Sevastopol and Crimea funded from the budget of the RF and other sources, according to Rosstat, 2014-2019, million U.S. dollars. Chart 1

Analysing the situation in Crimea, one should take into account the peculiarities of the "Russian model of the peninsula", turning Russia's official statistics into a propaganda tool and an instrument for concealing the real state of the economy after the imposition of sanctions, the restrictions on access to a vast amount of information

The so-called "constituent entities of the Russian Federation" the Republic of Crimea and the city of Sevastopol were merged into the Southern Federal District of the RF with the administrative centre in Rostov-on-Don.

The peculiarities of the real "economic model of Crimea", which can be described in two words: "militarisation" and "sanctions", should be taken into account when analysing the Russian statistics in general, and those for Crimea and Sevastopol in particular. After the occupation and imposition of sanctions, these statistics turned into a propaganda tool and an instrument for concealing the real state of the economy.

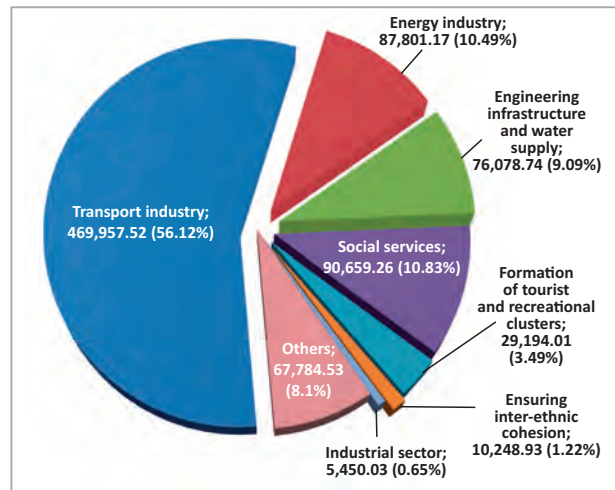
In addition, the imposition of sanctions prompts the RF to hide an ever-increasing amount of information related to the occupied peninsula and activities that fall under or may fall under sanctions. All previously public information of the Russian Federation on state defence orders has been classified.

Therefore, some conclusions and generalisations can only be made by comparing the statistics and information flow.

Russia's Investment in Fixed Capital in Occupied Crimea and Sevastopol

According to Rosstat, during the years of the occupation, investment in fixed capital in Crimea and Sevastopol has totalled \$8.6 billion and \$1.9 billion respectively. Of this investment, \$6.03 billion (70.2%) in Crimea and \$1.34 billion (71.6%) in Sevastopol was funded from the state budget (see Chart 1).

This was mainly the investment in the facilities under the so-called Federal Target Programme "The Socio-Economic Development of the Republic of Crimea and Sevastopol until 2020" (hereinafter referred to as "the FTP"), as shown in Chart 2.



The breakdown of the funds under the RF's "Crimean" Federal Target Programme by industry, million roubles (%). Chart 2

The authors have thoroughly analysed the FTP at various stages of its adoption, correction, and implementation.

It is worth reminding that the size of the FTP for 2015-2020 was 837,174.19 million roubles, including the funds from the federal budget – 94.5%, from the budgets of constituent entities of the Russian Federation – 1.9%, and from extrabudgetary sources – 3.6%.

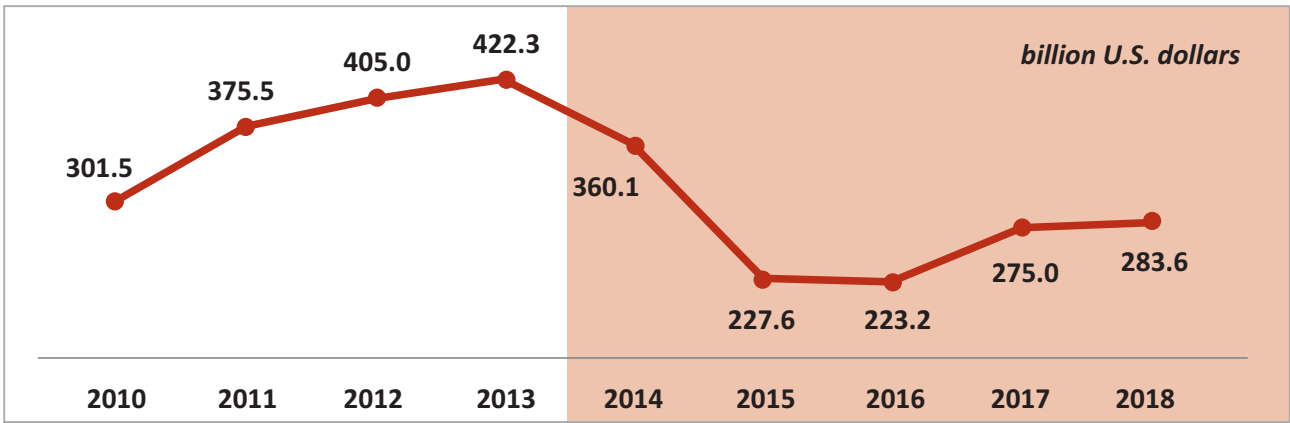
Almost 76% of the FTP funds were spent on implementing megaprojects in the areas of transport (56.12%), energy (10.49%), engineering infrastructure and water supply (9.09%):

- an underwater power cable and gas pipeline, road and railway bridges across the Kerch Strait;
- two power plants with notorious Siemens turbines in Sevastopol and Simferopol;
- the Tavrida motorway from Kerch to Sevastopol;
- the reconstruction of the airport in Simferopol and many smaller-scale projects.

Apart from 70% of budget investment in fixed capital, the considerable size of investment "from other sources" in occupied Sevastopol and Crimea during the occupation years – \$532.6 million and \$2,559.6 million respectively – deserves attention (See Chart 1).

In 2014-2019, Russia's investment in fixed capital in the "Republic of Crimea" and the city of Sevastopol totalled \$8.6 billion and \$1.9 billion respectively.

70.2% of the investment in Crimea and 71.6% in Sevastopol was funded from the RF's state budget



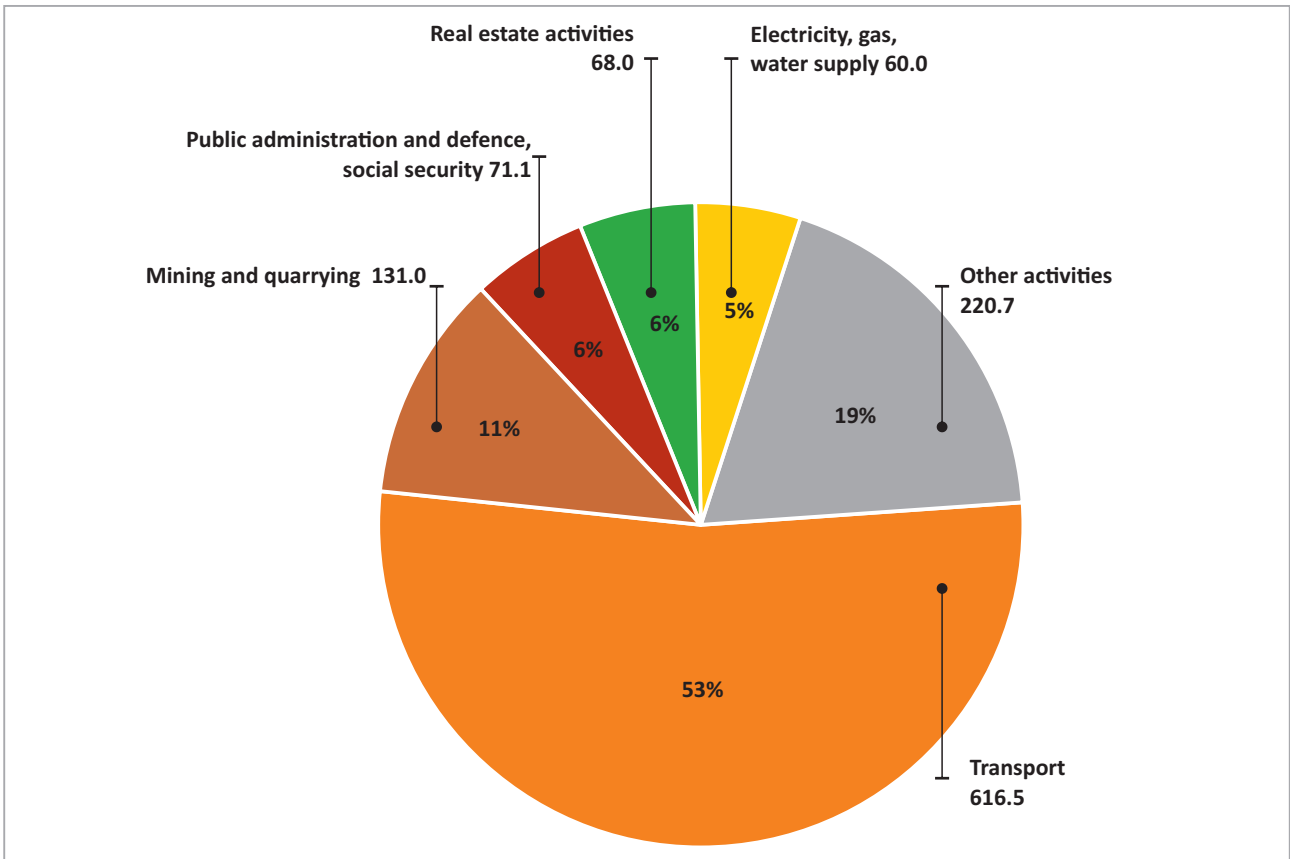
Investment in fixed capital in the RF in 2010 - 2018, according to Rosstat, billion U.S. dollars. Chart 3

The "other sources" of investment in Crimea and Sevastopol are as follows:

- investments from enterprises of the military-industrial complex of the RF in military production at Ukrainian plants seized as a result of the occupation;
- investment in the construction of road and energy infrastructure, other facilities under the FTP, the funds for which were allocated not directly from the budget of the Russian Federation, but through Russian state and quasi-private corporations or bank loans;
- private investment in housing construction for

customers from the RF is almost the only type of demand-oriented investment projects. The customers, in turn, represent a specific group of Russian military and government officials transferred to the peninsula. Also, private investment in trade and warehouse infrastructure of wholesale and retail businesses from the regions of the RF is made.

Note that this "island story", where until 2019, investment in fixed capital in Crimea that came from the RF's budget increased, unfolds against the backdrop of a dramatic decrease in investment in fixed capital in the Russian economy as a whole, as a result of the aggression against Ukraine and international sanctions (see Chart 3).



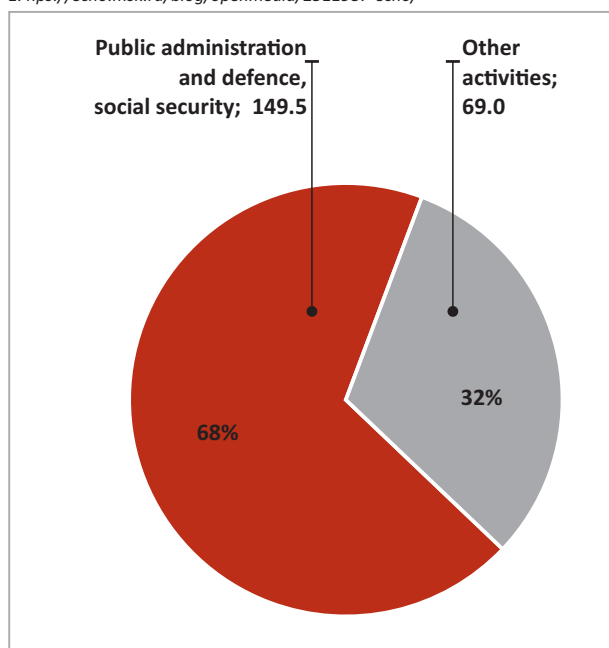
Putting into operation fixed assets in occupied Crimea by type of economic activity, according to Rosstat, 2014-2018, billion roubles. Chart 4

\$10.5 bn of Russian investment in fixed capital on the occupied peninsula caused by the blockade of Crimea should be compared with the loss of \$200 bn of such investment in Russia as a result of the flight of foreign capital and the curtailment of Russian business due to the war and sanctions

As the Russian economist Vladislav Inozemtsev explained, "since 2014, over 200 foreign companies have ceased their operations in Russia, and in 2018, Russian entrepreneurs closed their businesses 2.15 times more often than they started new ones. Only efforts of the state, whose share in total investment reached 18%, excluding the investment programmes of state companies, helped avoid the collapse of investment in fixed capital"¹.

Note that Russia's investments in infrastructure megaprojects on the territory of the Crimean peninsula were largely forced – the urgency of making these investments was a direct consequence of the occupation of Crimea, that is, of the international sanctions regime and the trade, transport, water, and infrastructure blockade by the mainland Ukraine caused by the occupation.

1. <https://echo.msk.ru/blog/openmedia/2511987-echo/>



Putting into operation fixed assets in Sevastopol by type of economic activity, according to Rosstat, 2014-2019, billion roubles. Chart 5

What Russian Investment Money is Spent on in Crimea and Sevastopol

As the following topic is quite specialised, for the convenience of those readers who do not deal with accounting on a day-to-day basis, let us recall the following definition:

Fixed assets are tangible assets (such as property, plant, and equipment) held by an enterprise or organisation for using them in the production process or for performing management functions. Fixed assets have an expected life of more than one year (or longer than an operating cycle if it exceeds a year).

The presence of this topic in our review is explained by the results given in the charts (see Charts 4 and 5), above all – by the type of economic activity marked in red.

In the official RF's classification², this type of activity has code 84 and the name "Public administration and defence, compulsory social security".

The main ingredient of this Russian cocktail of military defence and social security is the activity listed under code 84.22, "Defence activities".

"...This class includes administration, supervision, and operation of military defence affairs and land, sea, air and space defence forces such as:

- combat forces of army, navy, and air force,
- engineering, transport, communications, intelligence, material, personnel forces and commands,
- reserve and auxiliary forces of the defence establishment,
- military logistics (provision of equipment, supplies, structures, etc.),
- health activities for military personnel in the field ... "

Thus, the red segments of the charts, especially the one on Chart 5, which applies exclusively to Sevastopol, the main base of the Black Sea Fleet of the RF, indicates that over the years of the occupation, military facilities and equipment worth up to 150 billion roubles have been put into operation in Sevastopol. These facilities and equipment were assigned to the Black Sea Fleet and naval aviation headquarters located in the city. The fact that defence activities account for about 70% of fixed assets put into operation in Sevastopol demonstrates which industry has been given the highest priority in the city's economy.

2. OKVED – the Russian Classification of Economic Activities OK 029—2014 (NACE Rev. 2). Approved by Order of Rosstandart of 31 January 2014 No. 14-st, entered into force on 1 February 2014, the previous revisions of OKVED were repealed on 1 January 2015

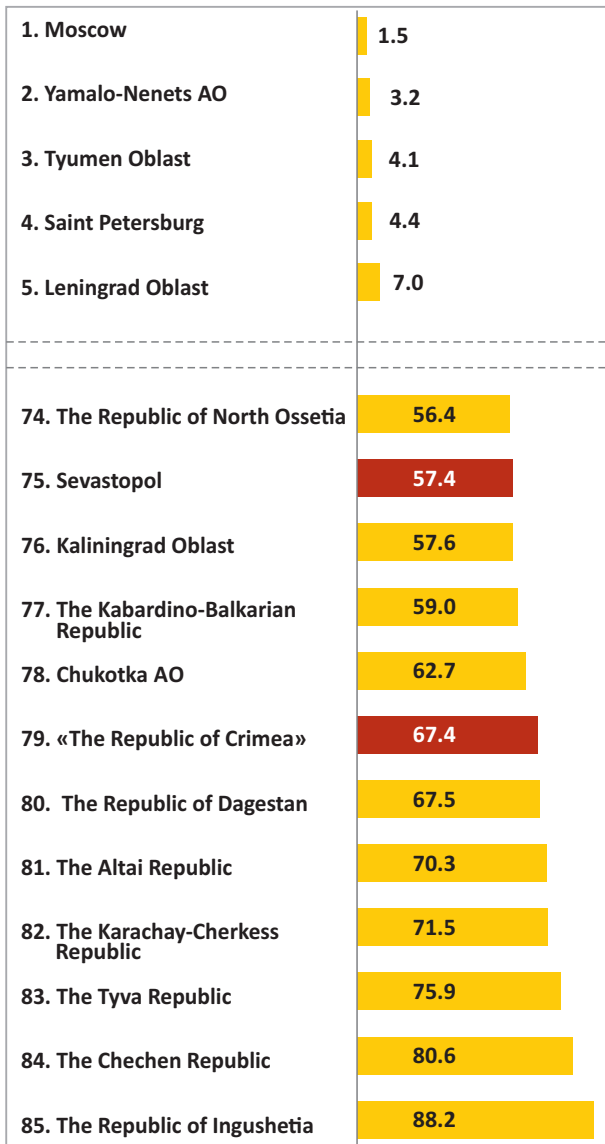


The so-called "Republic of Crimea" has somewhat different tasks, which is shown in Chart 4. Our analysis of Russian investment activity on the peninsula has demonstrated the following:

the main reason for the existence of the occupied Crimea territory for the RF is to provide transport and critical infrastructure transit from the territory of the RF to the military base in Sevastopol across the Kerch Strait.

This "mission" consists of the following priorities:

- providing logistics support – reliable and fast transportation of troops, armoured vehicles, missiles and shells, fuel and other supplies from the territory of the RF to military bases and airfields located in or operated from Sevastopol;
- providing logistics support to Russian military bases in Syria and the Russian Navy squadrons in the Mediterranean;



Ranking of the RF's regions, Crimea, and Sevastopol by share of funds from the RF's state budget in the consolidated budgets of the regions in 2019, (%). Chart 6

The main reason for the existence of occupied Crimea for Russia is to provide transit from the territory of the RF for everything the military base in Sevastopol needs

- providing military facilities with engineering infrastructure – water supply, sewerage, heat supply, power supply, gas supply, and communication systems (the provision of this infrastructure to the population of the peninsula is funded residually);
- providing critical services, such as health care, trade, for members of the Russian armed forces, civil servants, law enforcement officers, and their families (the provision of these services to the rest of the population is funded residually).

The Heavily Subsidised Budget Model of Crimea and Sevastopol

After 2015, it became clear that the regime of international sanctions and the blockade of the occupied peninsula by mainland Ukraine made not only economic development but also financial self-sufficiency of Crimea and Sevastopol impossible.

Since then, the analysis of the budgets of Sevastopol and the "Republic of Crimea" has lost its economic sense. The basis and, at the same time, the main intrigue of the annual budgeting on the Crimean peninsula are the same – the size of the government subsidy from the Russian Federation.

That is, due to the sanctions the Russian Federation was forced to move to the only possible "economic model" for occupied Crimea, the main features of which are as follows:

- "the island of Crimea" is isolated from the civilised world and connected only with the Russian Federation by the bridge across the Kerch Strait, the underwater power cable and gas pipeline, and by air;
- almost 70% of the "island's" expenses are covered by the budget subsidies from the Russian Federation; some income comes from the sale of "trophy" Ukrainian property, the buyers of which are Russian companies and individuals subject to international sanctions;

- the reason for the existence of the "island" is perhaps the world's largest military base of global geopolitical importance with the latest weapons; the main activities are the production, repair, and maintenance of military equipment, housing construction for the Russian military, intelligence officers, and officials;

- investment in "civilian" infrastructure projects is made to address the problems created by the occupation;

- the civilian, military, industrial, logistical, and service infrastructure of the "island" is created mainly on the basis of "trophy" Ukrainian property; its development and maintenance are funded by the Russian government – be it budgetary investments or the funds of state and quasi-private companies; this work is performed mainly by Russian companies subject to sanctions;

- all state-financed projects, programmes, and investment carried out on the "island" also serve a traditional for the RF purpose of enriching those who are assigned to implement them.

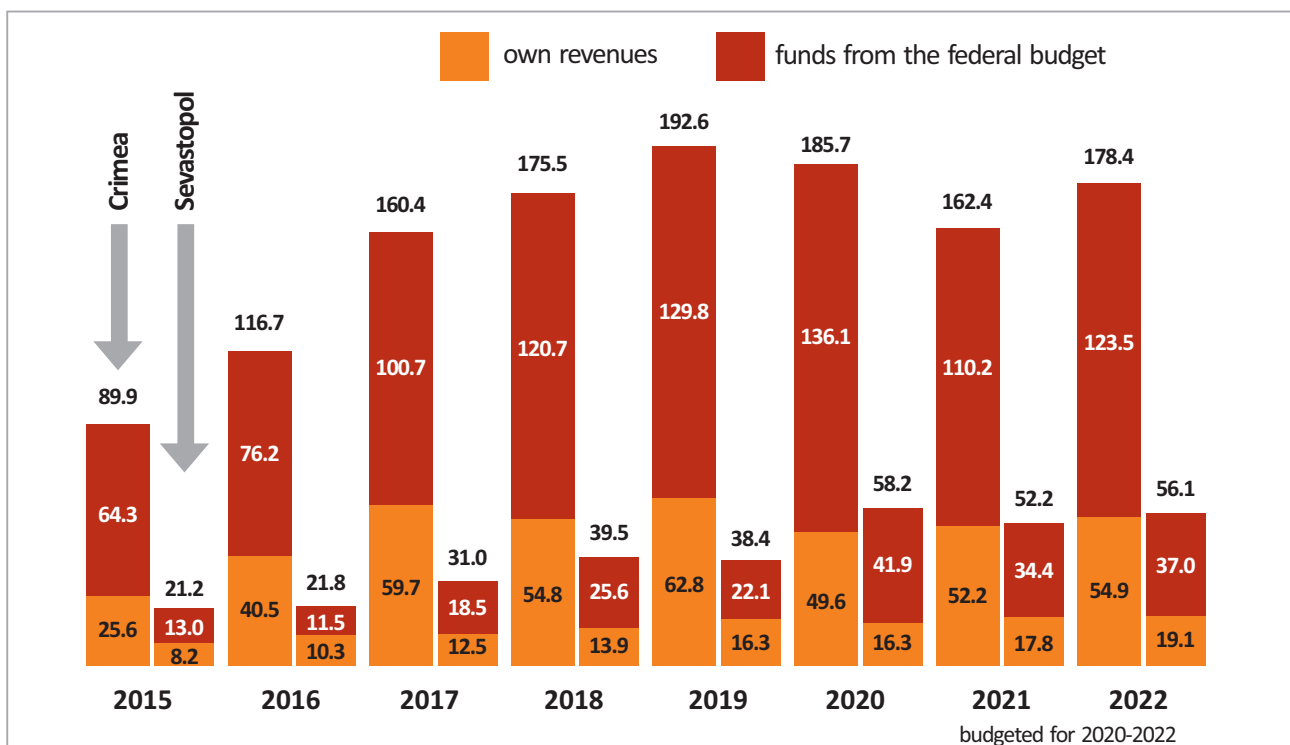
In 2019, own revenues accounted for only 32.6% of the revenues of occupied Crimea's republican and municipal budgets; the remaining 67.4% of the funding came from the budget of the Russian Federation.

In terms of the level of subsidy, occupied Crimea is in the same group as the most subsidised regions of the Russian Federation: the republics of the North Caucasus (Chechnya, Ingushetia, Karachay-Cherkessia, Dagestan) and such remote areas as Altai, Tyva, and Chukotka.

The optimistic hopes for "trophy" Crimea's self-sufficiency are gone forever: the occupied peninsula will never become financially self-sustaining. In Crimea itself, they expect to be permanently funded from the Russian budget, which causes irritation in the RF

A certain increase in revenues in 2019 was artificial – for this purpose, the legal addresses of some companies involved in the construction of the bridge across the Kerch Strait were transferred to Crimea for them to pay taxes to the Crimean budget. Due to the completion of the megaprojects, such revenues are no longer projected (see Chart 7).

The slightly lower level of Sevastopol's dependence on subsidies is explained only by the fact that, as a result of the militarisation during the occupation, many members of the Russian armed forces and their families, who have quite high incomes and pay taxes to the local budget, have moved to the city. According to the authors' estimates, during the occupation, the population of Sevastopol has increased by at least 15%.



Own budget revenues of the "Republic of Crimea" and Sevastopol and funds from the federal budget of the Russian Federation, 2015-2019 – actual, from 2020 – projected, according to the "Ministry of Finance of the RC", billion roubles. Chart 7



The Updated "Crimean Sanctions Package"

The occupation of Crimea has been going on for too long. In the first years of the occupation, Crimea was mainly a problem in the Ukrainian, European, and global context.

After six years of occupation, it remains a problem, but it has also become a threat—a base for the military expansion of the RF not only in mainland Ukraine but also more widely in the Black Sea-Mediterranean region.

Therefore, the "Crimean" sanctions regime must be adapted to the new situation. The goals of the updated sanctions regime should be:

- an increased response to Russia's ongoing occupation and annexation of the Crimean peninsula, to new facts, trends, and processes that have emerged in Crimea during the occupation period;
- the prevention of the de facto occupation and annexation by Russia of the Sea of Azov and the Black Sea, which is taking place before our eyes with the use of the military-political and

geostrategic capabilities created by the RF as the occupying state on the Crimean peninsula;

- the prevention of possible military operations of the RF from occupied Crimea in the direction of the Kherson region by land to seize the North Crimean Canal and resume the supply of the Dnieper water to the Crimean peninsula;
- the prevention of possible aggressive actions of the RF in the direction of the Black Sea coast in the Odesa, Mykolaiv, and Kherson regions; as well as in the direction of the Ukrainian coast of the Sea of Azov;
- creating obstacles to the use of occupied Crimea as an industrial, scientific, service, and logistical base for Russian military expansion.

* * *

The authors propose to implement two new sets of measures in the civilised world:

1. To introduce the updated "Crimean sanctions package" in order to contain the aggression of the RF, which is unfolding with the use of occupied Crimea as a base. These are mainly sanctions in the shipbuilding, military production, and shipping industries.



Occupied Crimea is a threat to Europe. The shooting range of the RF's sea-based and coastal missile systems from occupied Crimea and the naval base of the Russian Federation in Tartus, Syria

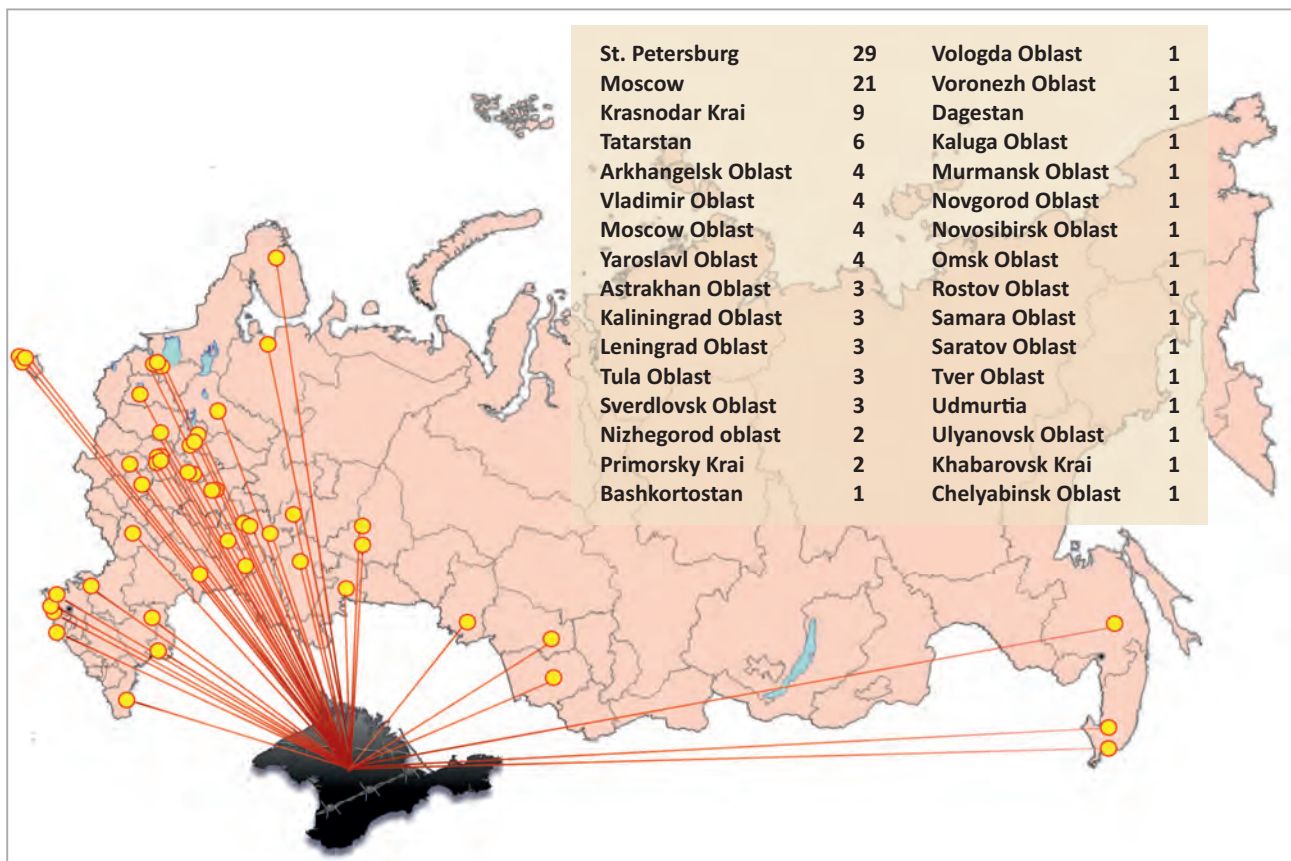
2. To strengthen the coordinated implementation of "The policy of non-recognition of the annexation of the Crimean peninsula" – an agreed list of rules that develop and specify the UNGA Resolution of 27 March 2014 "Territorial integrity of Ukraine" calling for refraining from any action or dealing that might be interpreted as recognising Russia's attempts to illegally alter the status of the Autonomous Republic of Crimea and the city of Sevastopol.

It is proposed to formulate the updated "Crimean sanctions package" as follows:

- to synchronise the sanctions lists of Ukraine, the EU member states, the USA, the Commonwealth of Nations that include the RF's legal entities operating on the occupied Crimean peninsula;
- to impose international sectoral sanctions on Russia's shipbuilding industry for collaboration on the construction and repair of the RF's warships and vessels at Ukrainian plants and design bureaus seized during the occupation of Crimea;
- to impose international sanctions on the RF's enterprises involved in the production, repair, and maintenance of military equipment at enterprises in occupied Crimea;

The updated "Crimean sanctions package" should take into account the practice of the 6 years of occupation, and create obstacles to the use of the Crimean peninsula as a base for the spread of a military threat to the Black Sea-Mediterranean region

- to impose international sanctions on all owners and operators (managers) of vessels that called at ports of the occupied Crimean peninsula in 2014-2020;
- to impose international sanctions on Russian ports in the Sea of Azov and the Black Sea, namely Port Kavkaz, Rostov-on-Don, Temryuk, Azov, and Novorossiysk, for regular maritime transportation from these ports to the occupied Crimean peninsula.



The geography of manufacturing ties of enterprises from the regions of the RF with the seized Crimean enterprises manufacturing and carrying out maintenance of military equipment



The Policy of Non-recognition of the Attempt to Annex the Crimean Peninsula

The legal basis for non-recognition of the attempt to annex Crimea, the basis for the sanctions policy, has been established in the first international document on this issue – the UN General Assembly Resolution A/RES/68/262 "Territorial integrity of Ukraine". It was adopted by a vote of 100 in favour at the 80th plenary session on 27 March 2014¹. The document states:

"The General Assembly [...] calls upon all States, international organizations and specialized agencies not to recognize any alteration of the status of the Autonomous Republic of Crimea and the city of Sevastopol on the basis of the above-mentioned referendum and to refrain from any action or dealing that might be interpreted as recognizing any such altered status..."

The experience of the six years of occupation of Crimea has shown the existence of typical situations where different countries of the world do not attach importance to individual cases, which can be interpreted in the context above. In addition, in some areas, there are efforts by the RF to "push through" the de facto recognition of the annexation.

First of all, these efforts include cases where:

- the Crimean peninsula is sometimes depicted on various types of geographical maps, in reference books, and textbooks as part of Russia;
- businesses carry out their activities on the territory of Crimea under well-known international brands, operated by these international companies' Russian subsidiaries;
- Crimean collaborators, information stands, and publications appear at international events as part of Russian delegations or expositions;
- officials, politicians, and deputies, including municipal ones, from countries that do not recognise the attempt to annex Crimea arrive in the occupied peninsula as part of so-called "delegations";
- the goods that are prohibited by the sanctions regime are delivered to occupied Crimea through the territory of the Russian Federation;
- there is access to the services of international hotel booking systems on the territory of occupied Crimea.

1. Resolution adopted by the General Assembly on 27 March 2014 – 68/262. Territorial integrity of Ukraine, https://www.un.org/en/ga/search/view_doc.asp?symbol=A/RES/68/262

Non-recognition of the attempt to annex the Crimean peninsula is the obligation of the subjects of international law. This obligation arises from the fundamental international custom expressed by the ancient Roman maxim *ex injuria jus non oritur* – a right does not arise from wrongdoing

In February 2020, the authors of this book made proposals at various EU institutions in Brussels for implementing a systemic response to these cases by specifying the "Policy of non-recognition of the attempt to annex Crimea".

Its main provisions are listed below and are offered for inclusion in documents to both international organisations and individual states.

* * *

Non-recognition of the attempt to annex the Crimean peninsula is the obligation of the subjects of international law rather than their right. This obligation is based not only on the "Crimean" UN Resolutions but also on the fundamental international custom. The obligation not to recognise the annexation attempt arises from the international custom expressed by the ancient Roman maxim *ex injuria jus non oritur* – a right does not arise from wrongdoing.

At the level of conventions, the obligation of non-recognition is a logical extension of the principle of non-use of force and threat of force, enshrined in the UN Charter and interpreted in the Declaration on Principles of International Law of 1970, on the Definition of Aggression of 1974, and others.

Non-recognition is universal and covers all areas of interaction of third countries with the Russian Federation and Ukraine – from the control of the proliferation of nuclear weapons to children's sports competitions.

This obligation is minimal and constant – that is, it cannot cease on its own and is a form of response, less than which even a politically friendly to the RF state cannot afford.

The policy of non-recognition of the annexation of Crimea should be implemented, among other things, through the adoption of decisions by international organisations and individual states (at least by those that supported the UN General Assembly Resolution 68/262 of 27 March 2014), which contain the following provisions, the list of which is not exhaustive:

- the prohibition of direct or indirect recognition of the annexation attempt in any documents or actions (including visits to Crimea or work in Crimea under the conditions of the Russian Federation):

- a) for international organisations,
- b) for public authorities at national, regional, or municipal levels, officials of third countries, including their diplomats and consuls in the RF,
- c) in administrative or judicial practice in specific cases (such as passports, visas, educational or commercial documents, contracts),
- d) for institutions of science, culture, sports, or education,
- e) in such areas as financial transactions, electrical and electronic communications, rail, air, and sea transportation,
- f) in the fields of "people's diplomacy", media, publications, reports, teaching, and other means of disseminating information;

- the prohibition of publication or any kind of presentation of geographical maps, including nautical charts, showing the Crimean peninsula as "part" of the Russian Federation;

- prohibiting the travel businesses, including those providing online booking, logistical, or insurance services, from cooperating with Crimea-based tourist facilities (such as hotels, museums) or travel agencies, directly or through partners, including listing such facilities/routes on their online platforms;

- prohibiting organisers of international scientific, educational, tourist, sports, cultural, or business events; exhibitions, festivals, advertising campaigns, or other events from granting permission to place, present, or publish information that would point to the Crimean peninsula's "belonging" to the Russian Federation;

- prohibiting them from involving people, who reside in the occupied territory of the Autonomous Republic of Crimea or the city of Sevastopol and work in the government, local governments, or other organisations officially registered in the occupied territory under the laws of the Russian Federation, as participants in such events;

- prohibiting politicians, civil servants, and other public figures from entering the Crimean peninsula from the territory of Russia;

- strong recommendations for citizens of the respective states not to enter the Crimean peninsula from the territory of Russia, with a warning about responsibility for such actions according to the Ukrainian legislation;

- the prohibition of the issuance of any entry visas to:
 - 1) holders of Russian passports issued in Crimea;
 - 2) citizens of the RF who have their place of residence registration in Crimea;

- the prohibition of the use of foreign brands on the territory of the Crimean peninsula by Russian companies (such as brands of manufacturing companies, retailers, providers of services). Franchise agreements signed by companies from the countries that supported the abovementioned UN Resolution with any Russian business entity should include a standard clause on the prohibition of operations in Crimea and heavy fines in case of a violation of this condition;

- the prohibition of the sale (resale) to the territory of the Crimean peninsula of any goods or services supplied under contracts to the territory of the Russian Federation. Such contracts with any Russian business entity should include a standard clause prohibiting the movement or resale of goods or services to Crimea and heavy fines in case of violations;

- the prohibition of providing port services for direct voyages between the ports of the respective countries and the ports of the Crimean peninsula. The authenticity of a ship's documents about the port of arrival/departure must be verified.



The authors of the book present the report "The Situation in Crimea under International Sanctions and the Policy of Non-recognition of the Attempt to Annex Crimea" in the European Parliament on 20 February 2020. The photo by Tamara Cherpakova, the Mission of Ukraine to the European Union



The Cost of the Occupation to Russia and What Awaits Crimea and Sevastopol

The authors completed the work on this book in March 2020, when not one but two "black swan" events occurred in the Russian economy – the coronavirus pandemic and the collapse of oil prices below the level of profitability for the RF. The latter event was not yet associated with the former.

Detailed forecasts about the impact of these new factors on the economy and budget of the Russian Federation, and, accordingly, subsidies for Crimea and Sevastopol, will hopefully be made in the not too distant future. Although both the Russian and world economies may not have seen all "black swans" yet.

Therefore, we have to leave this crucial factor of uncertainty for the future. However, it is worth noting the obvious: Russia's new economic and budgetary problems, which will undoubtedly arise from the economic crisis, will make financing the subsidised Crimean peninsula even more difficult for the RF than it is now. It is no coincidence that the first thing the RF did when the pandemic began was to attempt to use this factor to have the international sanctions lifted.

But let us look at the situation before the pandemic and the oil crisis started. The question of the cost of the occupation to Russia often arises. The results presented by the authors cover only some, and perhaps not the major, aspects of the answer to this question because there is no specific methodology for such calculations yet.

However, we can be sure that this bill includes the entire annual level of subsidies to the Crimean and Sevastopol budgets – an average of up to \$3 billion a year.

Undoubtedly, this bill also includes at least \$12 billion in costs involved in building the bridge over the Kerch Strait, an underwater gas pipeline and power cables across the Kerch Strait, the Tavrida motorway, and other megaprojects under the Federal Target Programme (see pp. 18-23), the undisclosed costs associated with maintaining federal officials on the peninsula, the separate "Crimean line" of the military budget.

However, these are only "direct costs". The "indirect losses" incurred as a result of the international sanctions for the occupation of Crimea and the subsequent aggression of the RF against Ukraine are, without exaggeration, hundreds of times heavier. One of the examples of such "indirect losses" (see p. 20) is a \$200 billion decrease in fixed capital investment in Russia in 2014-2015...

Under the occupation and sanctions, the development of Crimea is impossible in principle. The peninsula is turning into a "sanctions reserve", from which they will distance themselves even in Russia

And that's not all. The well-known Russian economist, expert in macroeconomic forecasting Evsey Gurvich wrote back in May 2018:

"The accumulated losses from financial sanctions, which have been in force since mid-2014, have reduced Russia's GDP by 2-2.5% ... A new wave of sanctions will undoubtedly further increase losses..."¹.

The ex-chairman of the Central Bank of the RF Sergey Dubinin said in December 2018 :

"The most obvious negative consequences of the imposition of sanctions by the USA and its allies for the Russian economy today is the state of uncertainty and unpredictability of doing business. The very prospect of an escalation of sanctions is destroying the business climate in our country"².

Another one of the many components of Russia's losses is the disruption to the shipbuilding programme to build surface warships and its sliding into chaos as a result of the impossibility to supply Ukrainian and German ship engines to the RF due to the sanctions. Over the six years, the experiments with the "import substitution" of these engines have not produced any results despite the huge costs...

There is no doubt that in the current situation, the RF will do its best to sustain the high levels of military spending on the Black Sea Fleet and other members of a large military contingent on the Crimean peninsula. This means the absolute priority of Sevastopol as the main military base over the so-called "Republic of Crimea" in a budgetary and social sense, among other things. As to the puppet "Republic of Crimea", Russia will not be able to maintain even its current standard of living, which is already low.

Anything unrelated to military Sevastopol, that is the life of the rest of the Crimean peninsula, awaits ruthless sequestration. Therefore, all manifestations of active economic and social life will evaporate from Crimea

1. <https://www.vedomosti.ru/opinion/articles/2018/05/16/769605-otvechat-sanktsii>
2. <https://www.vedomosti.ru/opinion/articles/2018/12/25/790386-zhestkih-sanktsii>



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