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December 16, 2025, as prepared for delivery

Lessons from Four Years of Russia Sanctions

[Thank you, Ben, for the opportunity to speak here. And thanks to you, to Robin Brooks, and to the team at Brookings for convening this meeting and for the outstanding work you have been doing on these issues.]

On February 24, 2022, Russia launched its full-scale invasion of Ukraine. The E.U., the U.S., the U.K. and their allies immediately imposed unprecedented financial sanctions in response, but Russia's devastating attack continued. This has caused some commentators to conclude that sanctions against Russia or other large countries just can't work. That conclusion is entirely incorrect. Now, more than ever, it's critical we learn the right, not the wrong, lessons from the past four years.

The right lesson is this: Sanctions can work, but only if they are enforced. And for enforcement to work, we need close cooperation within the G7, and particularly between the US and the EU. And for enforcement to be entirely credible and effective, the West has to be willing to incur at least some potential costs – although clever policy design can reduce those costs.

Let me start by pushing back on the idea that sanctions are only ever an incremental tool that could never possibly be expected to alter the course of the war. Think back to February 2022 when Russia launched its full-scale invasion. Imagine that the West had imposed a full embargo on Russian energy exports. Two things would have happened. First, global oil prices would have spiked, potentially pushing the US and other advanced economies into recession. Russia, just to remind you, is the world's third largest oil producer, with around ten percent of global production. Second, and more importantly, Russia would have gone into a deep financial crisis. Oil is by far Russia's largest source of foreign exchange. The ruble would have collapsed, inflation would have soared, and Russia's financial markets would have seized up. It is very difficult to fight when your economy is imploding.

Now let's think about what really happened. Right after the invasion, the West imposed financial sanctions, including freezing Russia's official foreign exchange reserves. Russia was running a large current account surplus for years before the full-scale invasion, and it was important and entirely appropriate to prevent the use of its foreign exchange reserves -- those held in western countries – for purposes of financing the war. This was a necessary step. But an exception was granted for Russian oil and gas revenues, as the west wanted to keep those fossil fuel exports flowing. A dangerous co-dependence had developed, and Russia obviously intended to make the most of that.

In fact, let me remind everyone that oil prices spiked after the full-scale invasion, raising the prospect that Russia's invasion could – from a Russian perspective – pay for itself. This would set a very dangerous precedent. If oil-rich countries can cause oil prices to jump by invading their neighbors, the chances are that we will see more inter-state aggression around the world.

The right Western countermove was what we saw next: the G7-EU-UK oil price cap, which was rolled out in December 2022, and which caps the price Russia gets for its oil exports. **[And here let me thank Ben Harris, Catherine Wolfram, now my colleague at MIT, and everyone else at the US Treasury who worked on developing this idea – a brilliant idea in my assessment.]**

The key variable in this measure is the level of the cap. In the event, the level of the cap was set at $60 per barrel, which was below but close to the prevailing market price at the time **[Brent was around $80 per barrel in December 2022]**. Russia continued to pump as much oil as it could. Why? Because it needed the revenue to pay for the war.

But the price cap of $60 was, in retrospect, too high. The opportunity to seriously *"shock"* Russia was sadly missed. If the level of the cap had been set at $30 or even $20 per barrel, Russia would still have had an incentive to export its oil, since this is still far above its marginal cost of extraction, which is around $15 per barrel in Western Siberia – and Russia needs all the dollars it can get. But its export revenue and its fiscal revenue would have collapsed. The ruble would have depreciated, inflation would have soared, and the economy would have struggled.

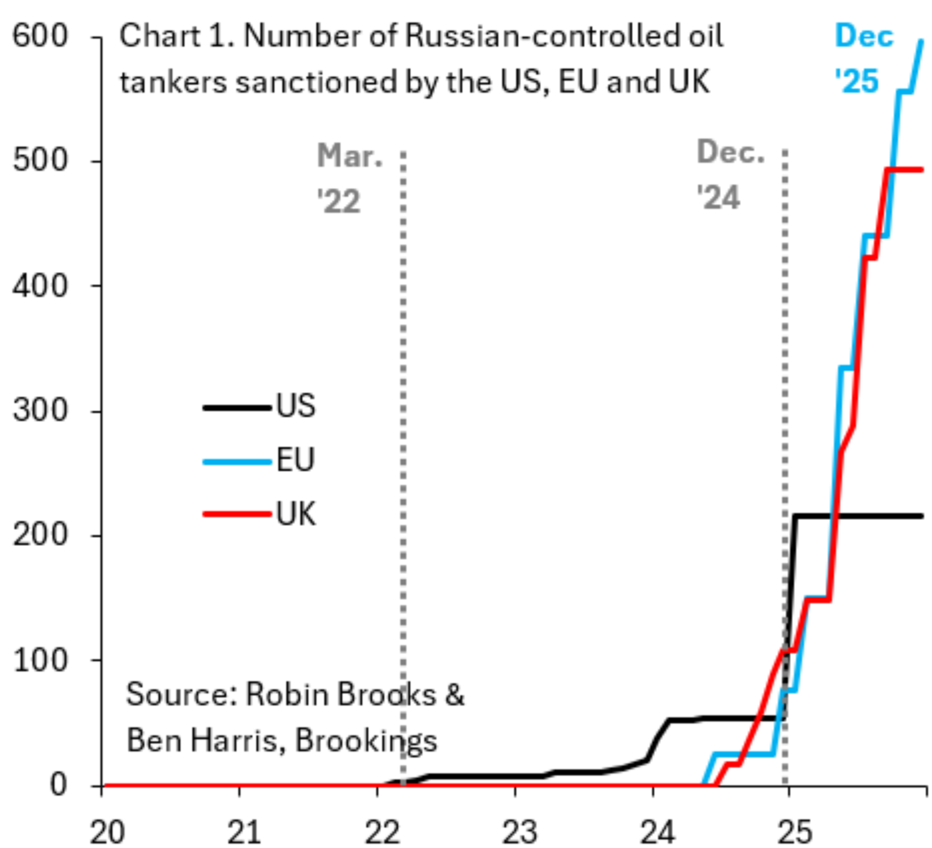
Why wasn't a lower cap set? Perhaps the people making decisions in the US and Europe feared a disruption of supply and a spike in oil prices. It is possible that some senior policymakers may not have fully understood Russia's intense incentive to generate as many dollars as possible. Or perhaps they just did not want to take the risk that the economic analysis was wrong.

But perhaps the problem was the influence of some European-based shipping companies, which feared that an aggressive cap would disrupt their business.

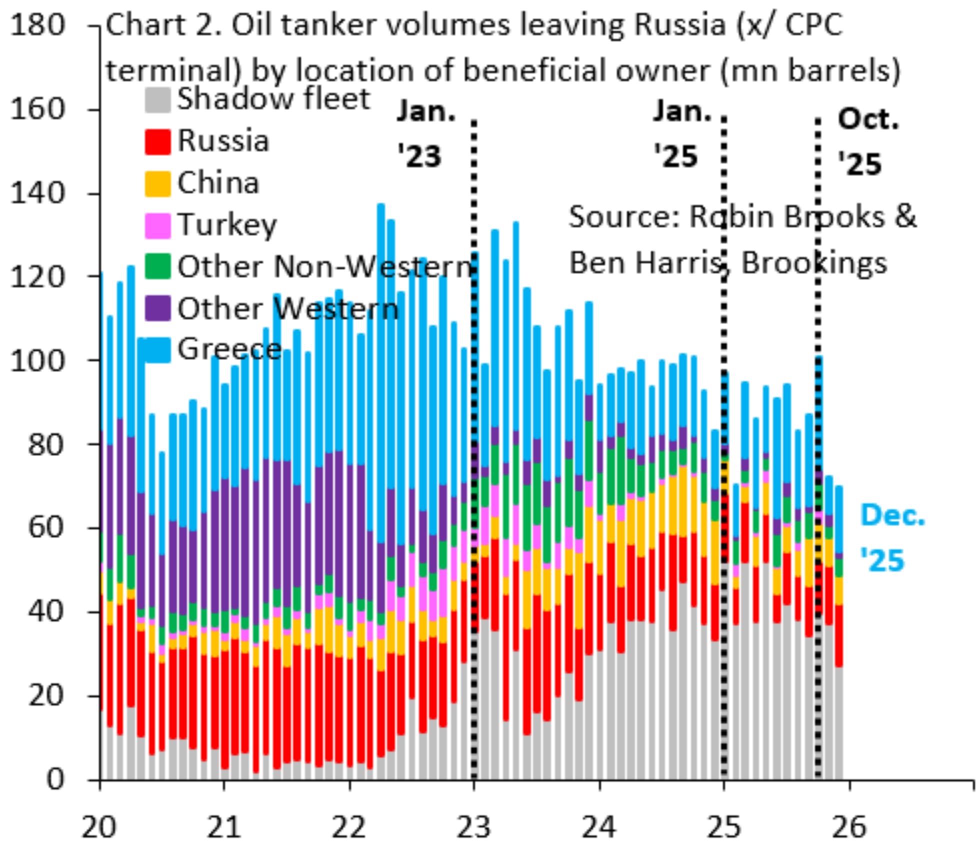
My point is this: none of these reasons for why the cap was set so high have anything to do with Russia. They're about the West and its reluctance to do what was needed, quickly, to counter Russia's murderous invasion of Ukraine.

Before I focus on the lessons to learn, let me say a few things about where we are now. The key insight is that most Russian exports of oil and oil product travel by sea. Every oil tanker can be and is tracked precisely in its movements. As you know, tankers sometimes attempt to hide their location by manipulating their identification systems. But every single tanker can be and is tracked by satellite, as well as by other means that I won't discuss here. These are very large ships, and you cannot hide where they pick up oil from Russia and where they take it.

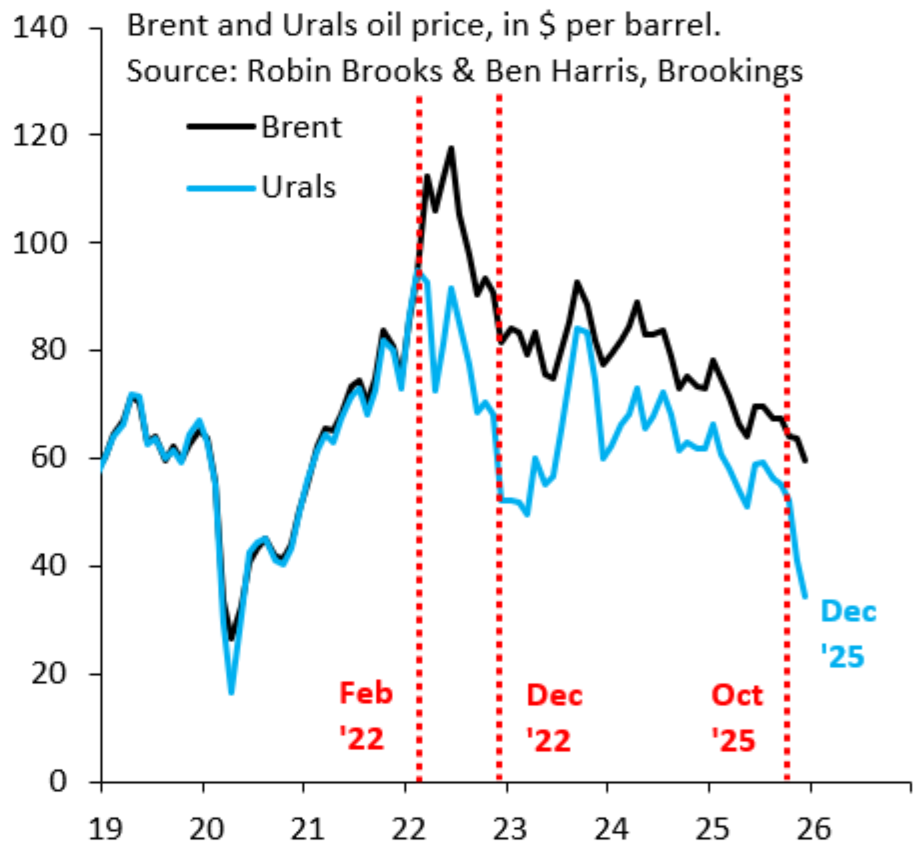
The G7 price cap depends critically on Western ownership and control over the global oil tanker fleet. This was critically undermined by the formation of the shadow fleet. But this fleet did not appear suddenly out of thin air. In fact, Robin Brooks and Ben Harris have documented exactly where this fleet came from: half of these oil tankers were sold to the shadow fleet by Western ship owners, and most of these vessels came from Greek ship owners. It would be very easy to disallow such transfers of ownership but in the data it looks like such sales continue to this day. The result is that around half of all seaborne oil now leaves Russia on shadow fleet ships. The shadow fleet is a monster of the West's own creation. A monster that is still growing.



During 2025, the EU and the UK have done an outstanding job sanctioning a huge number of shadow fleet ships **(CHART 1)**. In 2025 alone, the EU has sanctioned almost 500 Russian-controlled vessels, and the UK isn't far behind. Unfortunately, while the US started 2025 in the lead on sanctioning shadow fleet ships, it has now fallen far behind. Currently, there are 422 ships sanctioned by the EU and UK that are unsanctioned by the US. But the shadow fleet remains very active (**CHART 2**).



While the US has refused to join EU and UK sanctions on the shadow fleet, at the end of October the Trump administration did sanction Rosneft and Lukoil. Those sanctions have had a considerable impact by pushing down the Urals oil price relative to Brent, sharply widening the discount on Russian oil **(CHART 3) – while not putting upward pressure on world oil prices**. This is a very positive accomplishment – precisely because the threat of secondary sanctions deprives Russia of energy revenues. But that revenue would be squeezed even further if the US sanctioned all the oil tankers the EU and UK have already sanctioned.



What lessons do we need to learn?

- First, it's important to push back on the notion that sanctions don't work. The implementation of the G7 price cap was not forceful enough (in the sense that the cap was set too high) and enforcement was insufficient (the shadow fleet was allowed to grow). This is all about enforcement, not sanctions per se.
- Second, the most important underlying issue is always political. To the extent that the West did not set a low cap for fear of a spike in oil prices and recession, look at where we are now. The desire to minimize the probability

of adverse consequences in December 2022, when the cap was put in place, has cost the West and Ukraine a huge amount over the subsequent three years. If Russia is allowed a favorable outcome from the future, we will just be storing up problems for the future.

- Third, the premise and the promise of the 1990s was simple. I spent that decade in the former Soviet empire, and I remember those years well. I worked for the first Solidarity government in Poland, I studied the growth of entrepreneurs and the private sector across the region, I spend a lot of time in Ukraine. I also spent significant time in Moscow. After the fall of communism, the leading idea in Washington DC and other western capitals was: integrating previously communist countries into the western trading system would at least lead to better, more cooperative behavior – and less aggression. This approach worked for many parts of Eastern Europe, where people were happy to distance themselves from the past. It manifestly has not worked for Russia, and it may not have worked for China.
- Fourth and most important, if they behave aggressively against their neighbors, autocratic governments must not be allowed to benefit from the western trading system. And when the West responds to aggression, we need to do so decisively, with measures that cut off export revenue for those autocrats immediately. You may be able to find better ways to achieve this goal, as was the case with the price cap, but you need to follow through with enforcement. And let's be clear, there are always potential risks with an immediate response. But if we don't respond immediately and decisively, the West looks weak and – in the medium-term – the costs to all of us will be higher, and likely much higher.