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Russian Invasion of Ukraine: The Role of Private Sanctions

Finance Working Paper N° 949/2024
March 2024

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Abstract

Following Russia's invasion of Ukraine in February 2022, Western Nations have imposed an array of severe sanctions with the goal of thwarting Russia's ability to finance the war. While in modern history economic sanctions are used with great frequency, the novelty of the war in Ukraine is represented by the first mas sive use in a warfare context of private sanctions, meaning sanctions decided by private companies (also called "self-sanctioning"). This paper examines private sanctions as a new geopolitical tool, studying how they interact with economic sanctions and analyzing both the factors that can encourage and inhibit their use. To this purpose, we compare the companies that exited or suspended most of their operations in Russia after the invasion of Ukraine with the ones that decided to continue to operate in the country. Our analysis shows that companies that chose to leave Russia had a significantly higher net private sanctions variable (0.31 vs. -0.81) compared to those that continued operations. This positive vari able indicates stronger incentives for imposing private sanctions, with drivers like economic sanctions, market pressure, and boycott campaigns outweighing brakes such as revenue exposure and operational and regulatory obstacles. The difference is primarily driven by significantly fewer private sanction brakes for companies that left. This highlights the importance of obstacles in influencing the decision to exit. Overall, our results indicate that private sanctions have the potential to be exploited by governments to reinforce the effectiveness of eco nomic sanctions in modern warfare. To the contrary, private sanctions cannot be relied on as a geopolitical tool that allows policymakers to replace the deployment of costly economic sanctions.

Keywords: Economic sanctions, international law, Russia, Ukraine, boycott, stakeholder governance

JEL Classification: D62, F51, G34, K33, L21

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I. INTRODUCTION

Since Russia's invasion of Ukraine in February 2022, Western nations have imposed a system of severe sanctions with the aim of weakening Russia's ability to finance the war.[1] These restrictive measures include import and export bans

[1] *EU Sanctions Against Russia Following the Invasion of Ukraine*, EUR. COMM'N, https://ec.europa.eu/info/strategy/priorities-2019-2024/stronger-europe-world/eu-solidarity-ukraine/eu-sanctions-against-russia-following-invasion-ukraine_en

of strategic products, airspace closing, removal of several banks from the SWIFT system, and asset freezing.[2] However, it is not only governments who reacted to Russia's invasion.[3] Instead, companies also imposed their own costs on the Russian economy, massively suspending their operations in Russia or completely exiting the country.[4] This unprecedented exodus of foreign companies from Russia after the invasion of Ukraine, with thousands of firms voluntarily curtailing or halting their business, represents the first massive use in a warfare context of private sanctions, meaning sanctions decided by private companies outside of the scope of sanctions imposed by governments.[5]

Economic sanctions are a powerful instrument that in the last century–especially since the end of the Cold War–has risen substantially, and today, they are generally regarded as an alternative to war.[6] Nonetheless, the academic literature has casted serious doubt on the effectiveness of economic sanctions in achieving their goals.[7] As for the measures imposed on Russia after the invasion, to this date they have failed to constrain Russia's ability to sustain the war in Ukraine, but they are expected to damage the Russian economy severely in the medium to long term.[8] Notably, private sanctions are considered an essential

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[https://perma.cc/U3UW-M9FX]; Timeline- EU Restrictive Measures Against Russia over Ukraine, EUR. COMM'N, https://www.consilium.europa.eu/en/policies/sanctions/restrictive-measures-against-russia-over-ukraine/history-restrictive-measures-against-russia-over-ukraine/ (on file with the Ohio State Law Journal).

[2] *Import and Export Bans*, EUR. COMM'N, https://eu-solidarity-ukraine.ec.europa.eu/eu-sanctions-against-russia-following-invasion-ukraine/import-and-export-bans_en [https://perma.cc/6SUN-J2Y6]; *Sanctions on Transport*, EUR. COMM'N, https://eu-solidarity-ukraine.ec.europa.eu/eu-sanctions-against-russia-following-invasion-ukraine/sanctions-transport_en [https://perma.cc/KZ7F-L72B]; *Financial and Business Service Measures*, EUR. COMM'N, https://eu-solidarity-ukraine.ec.europa.eu/eu-sanctions-against-russia-following-invasion-ukraine/financial-and-business-service-measures_en [https://perma.cc/SH8K-JFA9].

[3] Oliver Hart, David Thesmar & Luigi Zingales, *Private Sanctions* 2 (George J. Stigler Ctr. for the Study of the Econ. & the State, Working Paper No. 323, 2023), https://ssrn.com/abstract=4238839 [https://perma.cc/2BZP-3PL5].

[4] Jeffrey Sonnenfeld et al., *Over 1,000 Companies Have Curtailed Operations in Russia–But Some Remain*, YALE SCH. OF MGMT.: CHIEF EXEC. LEADERSHIP INST. (Sept. 13, 2023), https://som.yale.edu/story/2022/almost-1000-companies-have-curtailed-operations-russia-some-remain [https://perma.cc/33JF-PC6N].

[5] Hart, Thesmar & Zingales, *supra* note 3, at 2.

[6] NICHOLAS MULDER, THE ECONOMIC WEAPON: THE RISE OF SANCTIONS AS A TOOL OF MODERN WAR 3–4 (2022).

[7] *See e.g.*, Philip I. Levy, *Sanctions on South Africa: What Did They Do?* 1 (Econ. Growth Ctr., Working Paper No. 796, 1999).

[8] MARIA DEMERTZIS, BENJAMIN HILGENSTOCK, BEN MCWILLIAMS, ELINA RIBAKOVA & SIMONE TAGLIAPIETRA, BRUEGEL, HOW HAVE SANCTIONS IMPACTED RUSSIA? 2 (Oct. 2022), https://www.bruegel.org/sites/default/files/2022-10/PC%2018%202022_1.pdf [https://perma.cc/68BP-WPM].

factor not only for the immediate effect on weakening activity in Russia but also for profoundly impacting Russia's economic prospects.[9]

Against this backdrop, this paper studies the effectiveness of private sanctions as a geopolitical tool, examining what the main "drivers" and "brakes" of self-sanctioning to help us understand to what extent we can expect them to be employed in future crises are.

We compare the companies that exited or suspended most of their operations with the ones that decided to continue to operate in Russia. The findings of our analysis reveal a notable disparity in the net private sanctions variable between companies that exited Russia and those that remained (0.31 vs. -0.81). The positive variable signifies a greater inclination towards implementing private sanctions, where drivers like economic sanctions, market pressure, and boycott campaigns outweigh brakes like revenue exposure and operational and regulatory obstacles. The significant discrepancy is mainly attributed to the reduced number of brakes among companies that left, while the difference in drivers did not yield statistical significance. This underscores the influential role of obstacles in shaping the decision to exit the Russian market.

Overall, our analysis indicates that private sanctions have the potential to be exploited by governments to reinforce the effectiveness of economic sanctions in modern warfare. To the contrary, private sanctions cannot be relied on as a geopolitical tool that allows to avoid the deployment of costly economic sanctions. On the one hand, there are contexts where the economic "brakes" might overcome the potential drivers, thereby we cannot expect corporate leaders to consistently discontinue profitable business relationships for moral or political reasons. On the other hand, stakeholder pressure is one of the main drivers of private sanctions, but while there was an exceptional public and bipartisan consensus in the Ukraine war, stakeholders' interests are not necessarily aligned with the national geopolitical strategy.

The remainder of the Article is structured as follows.

Part II offers an overview of the Russian invasion of Ukraine.

Part III examines economic sanctions. We begin by surveying their features and how they developed. We then proceed to document the economic sanctions that the U.S. and the EU have imposed on Russia after its invasion of Ukraine. We finally discuss the impact that the sanctions have had on both political outcomes and the Russian economy.

Part IV investigates private sanctions. First, it analyzes the main potential drivers of business decisions to cut ties with Russia after the invasion of Ukraine. Second, it describes the factors that might have impaired companies' capability to promptly leave Russia.

Part V empirically examines the exit strategies of companies from Russia due to Western nations' severe sanctions and self-sanctions imposed by private companies. By comparing companies that exited or continued operations, we

[9] *Id.*

gain insights into the potential of private sanctions to supplement economic sanctions in contemporary warfare.

Part VI briefly presents our conclusions.

II. RUSSIAN INVASION OF UKRAINE

On February 24, 2022, Russia invaded Ukraine, starting the largest war in Europe since 1945.[10] The full-scale invasion began with about 100 missiles and then with ground incursions on three main fronts: from the East, in the regions of Donetsk and Luhansk; from the North, via Belarus; and from the South, via Crimea.[11] The attack was supposed to conclude within 96 hours with a clear Russian victory, taking over Ukraine and overthrowing its President Volodymyr Zelenskyy for government loyal to Russian President Vladimir Putin.[12] Instead, as Russians faced greater resistance from Ukrainians than they had anticipated and they suffered logistical setbacks, the war has grown longer and costlier than the Kremlin expected.[13] Nonetheless, Russia's war of aggression has been spreading death and destruction in Ukraine.[14] From February 24, 2022 to May 7, 2023, the Office of the UN High Commissioner for Human Rights (OHCHR) recorded 23,606 civilian casualties in the country that includes 8,791 killed and 14,815 injured.[15] More broadly, The United Nations Office for the Coordination

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[10] European Council President Charles Michel stated: "Last night a cataclysm shook Europe. Brutal aggression triggered by Vladimir Putin and the Kremlin against human beings. A large-scale military attack on the Ukrainian people. This unprovoked and unjustified attack is unlike anything on European soil since the end of the Second World War." *See* Charles Michel, President, Eur. Council, Remarks at the Joint Press Conference with Commission President von der Leyen and NATO Secretary-General Stoltenberg (Feb. 24, 2022), https://www.consilium.europa.eu/en/press/press-releases/2022/02/24/remarks-by-president-michel-at-the-joint-press-conference-with-commission-president-von-der-leyen-and-nato-secretary-general-stoltenberg/ (on file with the *Ohio State Law Journal*).

[11] Eleanor Watson, *100 Days of War in Ukraine: A Timeline*, CBS NEWS, https://www.cbsnews.com/news/ukraine-russia-war-timeline-100-days/ [https://perma.cc/A5UR-KQZQ].

[12] Raj Bhala, *Waves of Russian Sanctions: American and Allied Measures, Indian and Chinese Responses, and Russian Countermeasures*, 14(2) TRADE L. & DEV. 352, 356 (2022).

[13] *See* Watson, *supra* note 11.

[14] *See* Valerie Hopkins, Neil MacFarquhar, Steven Erlanger & Michael Levenson, *100 Days of War: Death, Destruction and Loss*, N.Y. TIMES (June 3, 2022), https://www.nytimes.com/2022/06/03/world/europe/russia-ukraine-war-100-days.html [https://perma.cc/FE3M-R5TW]; *Ukraine: Civilian Casualty Update 31 July 2023*, UNITED NATIONS (July 31, 2023), https://www.ohchr.org/en/news/2023/07/ukraine-civilian-casualty-update-31-july-2023 [https://perma.cc/8VCW-XKM7] (reporting 26,015 civilian casualties in Ukraine since the start of the war on February 24 and believing that "the actual figures are considerably higher").

[15] Off. of the High Comm'r Human Rights, *Ukraine: Civilian Casualty Update 8 May 2023*, UNITED NATIONS (May 8, 2023),

of Humanitarian Affairs (OCHA) reports that there are 5.4 million internally displaced persons in Ukraine, 8.3 million Ukrainian refugees in Europe and 17.6 million people in need.[16]

Global bodies and national governments immediately and firmly deplored the aggression. On March 2, 2022, the United Nations General Assembly overwhelmingly adopted a resolution demanding the Russian Federation to immediately end its invasion of Ukraine and to unconditionally withdraw all its military forces from the country.[17] The resolution also condemned "the aggression by the Russian Federation against Ukraine in violation of Article 2 (4) of the Charter," reaffirming the "sovereignty, independence, unity and territorial integrity of Ukraine."[18] Moreover, governments worldwide rolled out increasingly stringent sanctions against Russia to pressure it to end the war.[19] These sanctions encompass prohibiting the importation of Russian key strategic products, imposing embargoes on specific Russian exports, airspace closure to Russian airlines, expulsion of several banks from the SWIFT system, and freezing of assets belonging to the Russian state and individuals closely affiliated with it.[20]

In addition to the actions employed by governments, also the private sector has responded to the invasion of Ukraine, with hundreds of Western companies taking the unprecedented step of withdrawing from Russia.[21]

The following sections provide a framework to understand both the economic sanctions and the private sanctions.

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https://www.ohchr.org/en/news/2023/05/ukraine-civilian-casualty-update-8-may-2023#:~:text=From%2024%20February%202022%2C%20which,8%2C791%20killed%20and%2014%2C815%20injured [https://perma.cc/5Q88-HSQN].

16 OFF. FOR THE COORDINATION OF HUMANITARIAN AFFS., UKRAINE HUMANITARIAN RESPONSE 2023. SITUATION REPORT, UNITED NATIONS (May 26, 2023), https://reports.unocha.org/en/country/ukraine/ [https://perma.cc/V5AC-N2QY].

17 G.A. Res. 11/1, U.N. Doc. A/RES/ES-11/1, at 3 (Mar. 18, 2022).

18 *Id.*

19 *See* sources cited *supra* note 1; Press Release, White House, Fact Sheet: U.S., European Union, and G7 to Announce Further Economic Costs on Russia (Mar. 11, 2022), https://www.whitehouse.gov/briefing-room/statements-releases/2022/03/11/fact-sheet-united-states-european-union-and-g7-to-announce-further-economic-costs-on-russia/ [https://perma.cc/MG5M-DVLL].

20 *See* sources cited *supra* note 2.

21 Sonnenfeld et al., *supra* note 4.

III. ECONOMIC SANCTIONS

A. Economic Sanctions

Economic sanctions are defined as "the withdrawal of customary trade and financial relations for foreign- and security-policy purposes."[22] They are a powerful instrument in the landscape of international affairs, whose popularity has risen substantially in the last century.[23] Economic coercion has become a preferred policy tool because it allows to react to a national security threat or foreign policy challenge without necessarily resorting to military force.[24]

In the U.S., the use of economic sanctions has increased by almost 1000% from 2000 to 2021, and the U.S. Department of the Treasury has highlighted how "sanctions allow U.S. policymakers to impose a material cost on adversaries to deter or disrupt behavior that undermines U.S. national security and signal a clear policy stance."[25]

The types of economic sanctions can vary greatly, and they have changed over time. Until the 1990s, sanctions were mainly comprehensive, involving blanket bans on trade and investment between target and sanctioning countries.[26] More recently, economic sanctions have been designed as more selective instruments, such as travel bans, asset freezes, bans on luxury goods sales, sectoral sanctions, arms embargoes, and financial restrictions on international banking activity.[27]

The shift from comprehensive sanctions–prohibiting commercial transactions with an entire country and its people–to targeted sanctions–narrowly tailored and focused on individual elites, particular institutions, and specific sectors–was driven by the goal of limiting the collateral impact on the target country's population.[28] Targeted sanctions are also called "smart sanctions," defined as "measures tailored to maximize a target regime's costs of noncompliance while minimizing the suffering of that state's population."[29]

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[22] Jonathan Masters, *What Are Economic Sanctions?*, COUNCIL ON FOREIGN RELS., https://www.cfr.org/backgrounder/what-are-economic-sanctions [https://perma.cc/Q39H-WQU9]

[23] *See id.*

[24] Ashley Deeks & Andrew Hayashi, *Tax Law as Foreign Policy*, 170 U. PA. L. REV. 275, 286 (2022).

[25] U.S. DEP'T OF THE TREASURY, THE TREASURY 2021 SANCTIONS REVIEW 1–2 (Oct. 2021), https://home.treasury.gov/system/files/136/Treasury-2021-sanctions-review.pdf [https://perma.cc/58WP-XYPX].

[26] Dursun Peksen, *Political Effectiveness, Negative Externalities, and the Ethics of Economic Sanctions*, 33 ETHICS & INT'L AFFS. 279, 279 (2019).

[27] *Id.*

[28] Deeks & Hayashi, *supra* note 24, at 286–87.

[29] *Id.* at 287 n.56.

However, economic sanctions remain controversial, attracting two primary criticisms.[30] First, they are considered overall ineffective in achieving their goals,[31] frequently failing to induce policy reforms in the target country.[32] Second, they appear to impose significant humanitarian harm even when designed as targeted sanctions.[33]

B. Economic Sanctions Against Russia

The United States, the EU, and several other countries pressured Russia to end its attack by imposing pervasive economic sanctions. These sanctions include banning imports of Russian key strategic products, setting embargoes on certain Russian exports, closing airspace to Russian airlines, removing several banks from the SWIFT system, and freezing assets owned by the Russian state and by individuals closely affiliated with it.[34]

The economic measures are crafted with the aim to restore peace in Ukraine while upholding "human dignity, freedom, democracy, the rule of law and human rights" without the use of military forces.[35] The declared goal is to degrade Russia's economic base and curtail its ability to wage war while minimizing negative consequences for the Russian population.[36] Therefore, the U.S. and its allies opted for targeted "smart" sanctions intended to preferably hit specific Russian individuals and entities rather than for country-wide comprehensive sanctions that are associated with large humanitarian losses.[37] However, it is apparent that for sanctions to be effective, they must profoundly affect the economy and welfare of the entire nation, inevitably resulting in adverse humanitarian effect.[38]

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[30] Kishanthi Parella, *Corporate Foreign Policy in War*, 63 B.C. L. REV. (forthcoming 2023) (manuscript at 6), https://www.ssrn.com/abstract=4223298 [https://perma.cc/5CAY-KGSC].

[31] *See* Levy, *supra* note 7, at 12.

[32] *See generally* Robert A. Pape, *Why Sanctions Do Not Work*, 22 INT'L SEC. 90, 106 (1997).

[33] Peksen, *supra* note 26, at 280.

[34] *See* sources cited *supra* note 2.

[35] *Question and Answers: "Maintenance and Alignment" Package of Restrictive Measures Against Russia*, EUR. COMM'N (Jul. 22, 2022), https://ec.europa.eu/commission/presscorner/detail/en/qanda_22_4643.

[36] *Id.* ("Sanctions are targeted at the Kremlin and its accomplices. They aim at weakening the Russian government's ability to finance its war of aggression against Ukraine and are calibrated in order to minimise the negative consequences on the Russian population.").

[37] *See* Press Release, White House, *supra* note 19; Peksen, *supra* note 26.

[38] For instance, among the sanctions imposed by Western governments, the freezing of Russian Central Bank assets and depreciation of the currency will, of necessity, hurt the Russian people. *See* Peksen, *supra* note 26, at 280.

1. Sanctions Imposed by the USA

On February 21, 2022, President Putin acknowledged the sovereignty and independent status of the Donetsk People's Republic (DNR) and Luhansk People's Republic (LNR) regions in Ukraine, commonly referred to as separatist territories, and dispatched Russian military forces to these areas.[39] Against Putin's decrees, the White House issued an executive order that halted any new investments, exports, or imports between the United States and these regions.[40] The U.S. Government imposed further sanctions on Russia on the following day, including the blocking by the U.S. Treasury of two major state-owned Russian banks and their affiliated institutions, which play a critical role in financing the Russian defense industry.[41]

On February 24, as a reaction to the invasion of Ukraine, the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) introduced comprehensive economic measures to effectively isolate Russia from the global financial system.[42] These measures required all U.S. financial institutions to close accounts held by Sberbank and refrain from engaging in future transactions, froze the assets of Russian banks VTB Bank, Otkritie, Novikom, and Sovcom, and imposed sanctions on thirteen prominent Russian state-owned and private entities as well as various Russian oligarchs.[43]

On February 26, the United States, in conjunction with the European Union, France, Germany, Italy, the United Kingdom, and Canada, announced a coordinated effort to expel selected Russian banks from the SWIFT messaging system.[44] Additionally, measures were put in place to hinder the Russian Central

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[39] *See* Chad P. Bown, *Russia's War on Ukraine: A Sanctions Timeline*, PETERSON INST. FOR INT'L ECON., https://www.piie.com/blogs/realtime-economic-issues-watch/russias-war-ukraine-sanctions-timeline [https://perma.cc/9VXP-UY4M].

[40] Press Release, White House, Executive Order on Blocking Property of Certain Persons and Prohibiting Certain Transactions with Respect to Continued Russian Efforts to Undermine the Sovereignty and Territorial Integrity of Ukraine (Feb. 21, 2022), https://www.whitehouse.gov/briefing-room/presidential-actions/2022/02/21/executive-order-on-blocking-property-of-certain-persons-and-prohibiting-certain-transactions-with-respect-to-continued-russian-efforts-to-undermine-the-sovereignty-and-territorial-integrity-of-ukraine/ [https://perma.cc/FL47-Z4TS].

[41] Press Release, U.S. Dep't of the Treasury, U.S. Treasury Imposes Immediate Economic Costs in Response to Actions in the Donetsk and Luhansk Regions (Feb. 22, 2022), https://home.treasury.gov/news/press-releases/jy0602 [https://perma.cc/SR8C-ZAEZ].

[42] Press Release, U.S. Dep't of the Treasury, U.S. Treasury Announces Unprecedented & Expansive Sanctions Against Russia, Imposing Swift and Severe Economic Costs (Feb. 24, 2022), https://home.treasury.gov/news/press-releases/jy0608 [https://perma.cc/M3P6-Y56N].

[43] *Id.*

[44] Press Release, White House, Joint Statement on Further Restrictive Economic Measures (Feb. 26, 2022), https://www.whitehouse.gov/briefing-room/statements-

Bank from utilizing reserves to undermine the imposed sanctions, restrict the usage of "golden passports" by Russian oligarchs, and establish a transatlantic task force.[45]

On March 2, the U.S. Department of Transportation and its Federal Aviation Administration barred Russian aircraft and airlines from entering all domestic U.S. airspace.[46]

On March 8, President Biden announced a ban on the importation of Russian oil, liquefied natural gas, and coal.[47]

On March 11, the United States, together with the European Union, France, Germany, Italy, the United Kingdom, Japan, and Canada, enforced additional restrictions.[48] These included raising import tariffs to eliminate the benefits of World Trade Organization (WTO) membership for Russia, denying Russia borrowing privileges at the World Bank and International Monetary Fund (IMF), and implementing various trade and financial sanctions.[49]

On April 6, the OFAC added Sberbank and Alfa Bank, two of Russia's largest banks, to the Specially Designated Nationals and Blocked Persons List (SDN List).[50] On the same day, President Biden issued a new executive order that prohibited "new investment" in Russia by any U.S. individual or entity, regardless of their location.[51]

On May 8, the OFAC announced further sanctions, such as a prohibition on the export of accounting, trust, corporate formation, and management consulting services.[52]

releases/2022/02/26/joint-statement-on-further-restrictive-economic-measures/ [https://perma.cc/QLH8-K82G].

[45] *Id.*

[46] Press Release, Fed. Aviation Admin., U.S. Will Block Russian Aircraft from Using All Domestic Airspace (Mar. 2, 2022), https://www.faa.gov/newsroom/us-will-block-russian-aircraft-using-all-domestic-airspace [https://perma.cc/YZ3U-PWVP].

[47] Remarks Announcing a U.S. Ban on Imports of Russian Oil, Liquefied Gas & Coal, 2022 DAILY COMP. PRES. DOC. 1 (Mar. 8, 2022).

[48] Press Release, White House, *supra* note 19.

[49] *Id.*

[50] Press Release, White House, Fact Sheet: United States, G7 and EU Impose Severe and Immediate Costs on Russia (Apr. 6, 2022) https://www.whitehouse.gov/briefing-room/statements-releases/2022/04/06/fact-sheet-united-states-g7-and-eu-impose-severe-and-immediate-costs-on-russia [https://perma.cc/FD4E-75XR].

[51] *Id.*

[52] Press Release, U.S. Dep't of the Treasury, U.S. Treasury Takes Sweeping Action Against Russia's War Efforts (May 8, 2022), https://home.treasury.gov/news/press-releases/jy0771 [https://perma.cc/F43R-NYYZ].

Following the G7's expression of support for Ukraine, on June 28, the OFAC implemented additional measures, including financial sanctions targeting 70 additional Russian entities and 29 Russian individuals.[53]

On February 24, 2023, the one-year anniversary of Russia's invasion of Ukraine, the U.S. announced further sanctions against key revenue-generating sectors with the aim to further degrade Russia's economy and diminish its ability to wage war against Ukraine.[54] The measures implemented included the imposition of visa restrictions on Russian military personnel, the freezing of assets belonging to individuals allied with President Vladimir Putin, effectively banning aluminum imports from Russia, the limitation of Russian banking activities and arms production, and the inclusion of the country's second-largest mobile phone company, Megafon, on a trade blacklist.[55]

2. Sanctions Imposed by the EU

In response to the invasion of Ukraine, the European Union (EU) imposed several packages of sanctions against Russia, which encompassed targeted restrictive measures (individual sanctions), economic sanctions, and diplomatic measures.[56]

The initial package of sanctions featured an import ban on goods from the areas of DNR and LNR, limitations on trade and investments, an export embargo on selected goods and technologies, restricted access for Russian entities to the EU's capital, financial markets, and services, as well as travel bans and asset freezes on several Russian individuals.[57]

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[53] Press Release, U.S Dep't of the Treasury, U.S. Treasury Sanctions Nearly 100 Targets in Putin's War Machine, Prohibits Russian Gold Imports (June 28, 2022), https://home.treasury.gov/news/press-releases/jy0838 [https://perma.cc/3EAR-PMAE].

[54] Press Release, White House, Fact Sheet: On One Year Anniversary of Russia's Invasion of Ukraine, Biden Administration Announces Actions to Support Ukraine and Hold Russia Accountable (Feb. 24, 2023), https://www.whitehouse.gov/briefing-room/statements-releases/2023/02/24/fact-sheet-on-one-year-anniversary-of-russias-invasion-of-ukraine-biden-administration-announces-actions-to-support-ukraine-and-hold-russia-accountable/ [https://perma.cc/AX3M-4RTR].

[55] Steve Holland, Jonathan Landay & Andrea Shalal, *U.S. Targets Russia with Sanctions, Moscow Says Measures Won't Work*, REUTERS (Feb. 24, 2023), https://www.reuters.com/world/us-targets-russia-with-sanctions-tariffs-ukraine-war-anniversary-2023-02-24/ [https://perma.cc/UQ6J-JRCZ].

[56] *EU Sanctions Against Russia Explained*, EUR. COUNCIL & COUNCIL OF THE EUR. UNION (June 26, 2023), https://www.consilium.europa.eu/en/policies/sanctions/restrictive-measures-against-russia-over-ukraine/sanctions-against-russia-explained/ (on file with the *Ohio State Law Journal*).

[57] Press Release, Council of the Eur. Union, EU Adopts Package of Sanctions in Response to Russian Recognition of the Non-Government Controlled Areas of the Donetsk and Luhansk Oblasts of Ukraine and Sending of Troops into the Region (Feb. 23, 2022), https://www.consilium.europa.eu/en/press/press-releases/2022/02/23/russian-recognition-of-the-non-government-controlled-areas-of-

The second set of sanctions entailed financial measures targeting President Putin, Minister of Foreign Affairs Sergei Lavrov, other individual Russians, and Russian banks.[58] Additionally, it included travel restrictions preventing certain individuals from entering the EU, wide-ranging trade restrictions on goods and associated services, including semiconductors and other dual-use items, as well as technology and high-tech exports.[59]

The third package involved the prohibition of transactions with the Russian Central Bank, the suspension of Russian carriers from overflight of EU airspace and access to EU airports, and the addition of twenty-six individuals and one entity to the list of sanctioned persons and entities.[60]

The fourth set of sanctions comprised the prohibition of iron and steel product imports and the export of luxury goods.[61] It also introduced a ban on new investments in the Russian energy sector, transactions with specific Russian state-owned enterprises, and the provision of credit-rating services.[62]

The fifth package included a ban on Russian freight road operators as well as import bans on all forms of Russian coal and on a range of other products such as cement, wood, spirits (including vodka), and high-end seafood (including caviar).[63] It broadened export bans to cover jet fuel, quantum computers, semiconductors, and other technology products and services.[64] Additionally, it extended the ban on transactions and asset freezes to four

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the-donetsk-and-luhansk-oblasts-of-ukraine-as-independent-entities-eu-adopts-package-of-sanctions/ (on file with the *Ohio State Law Journal*).

[58] Press Release, Council of the Eur. Union, Russia's Military Aggression Against Ukraine: EU Imposes Sanctions Against President Putin and Foreign Minister Lavrov and Adopts Wide Ranging Individual and Economic Sanctions (Feb. 25, 2022), https://www.consilium.europa.eu/en/press/press-releases/2022/02/25/russia-s-military-aggression-against-ukraine-eu-imposes-sanctions-against-president-putin-and-foreign-minister-lavrov-and-adopts-wide-ranging-individual-and-economic-sanctions/ (on file with the *Ohio State Law Journal*).

[59] *Id.*

[60] Press Release, Council of the Eur. Union, Russia's Military Aggression Against Ukraine: Council Imposes Sanctions on 26 Persons and One Entity (Feb. 28, 2022), https://www.consilium.europa.eu/en/press/press-releases/2022/02/28/russia-s-military-aggression-against-ukraine-council-imposes-sanctions-on-26-persons-and-one-entity/ (on file with the *Ohio State Law Journal*).

[61] Press Release, Council of the Eur. Union, Russia's Military Aggression Against Ukraine: Fourth EU Package of Sectoral and Individual Measures (Mar. 15, 2022), https://www.consilium.europa.eu/en/press/press-releases/2022/03/15/russia-s-military-aggression-against-ukraine-fourth-eu-package-of-sectoral-and-individual-measures/ (on file with the *Ohio State Law Journal*).

[62] *Id.*

[63] Press Release, Council of the Eur. Union, EU Adopts Fifth Round of Sanctions Against Russia Over its Military Aggression Against Ukraine (Apr. 8, 2022), https://www.consilium.europa.eu/en/press/press-releases/2022/04/08/eu-adopts-fifth-round-of-sanctions-against-russia-over-its-military-aggression-against-ukraine/ (on file with the *Ohio State Law Journal*).

[64] *Id.*

additional Russian banks and prohibited Russian companies from participating in EU public procurement projects.[65]

The sixth set of sanctions included a ban on the importation of Russian crude oil and petroleum products with limited exceptions.[66] It further involved the exclusion of three Russian banks and one Belarusian bank from the SWIFT messaging system, suspended broadcasting within the EU for three Russian media outlets, and imposed sanctions on an additional 65 individuals and 18 entities.[67]

On July 21, 2022, the Council adopted a "maintenance and alignment" package of sanctions intended to tighten economic sanctions targeting Russia, perfect their implementation and strengthen their effectiveness.[68] The package introduced a new prohibition to purchase, import, or transfer, directly or indirectly, gold, also covering for jewelry.[69] It also extended both the list of controlled items and the port access ban to locks to avoid the circumvention of sanctions.[70]

The eighth package introduced into the EU legislation the basis to put in place a price cap related to the maritime transport of Russian oil for third countries and further restrictions on the maritime transport of crude oil and petroleum products to third countries.[71] The ninth and tenth packages imposed further import-export controls and restrictions, while the eleventh package

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[65] *Id.*

[66] Press Release, Council of the Eur. Union, Russia's Aggression Against Ukraine: EU Adopts Sixth Package of Sanctions (June 3, 2022), https://www.consilium.europa.eu/en/press/press-releases/2022/06/03/russia-s-aggression-against-ukraine-eu-adopts-sixth-package-of-sanctions/ (on file with the *Ohio State Law Journal*).

[67] Press Release, Council of the Eur. Union, Russia's Aggression Against Ukraine: The EU Targets Additional 65 Individuals and 18 Entities (June 3, 2022), https://www.consilium.europa.eu/en/press/press-releases/2022/06/03/russia-s-aggression-against-ukraine-the-eu-targets-additional-65-individuals-and-18-entities/ (on file with the *Ohio State Law Journal*).

[68] Press Release, Council of the Eur. Union, Russia's Aggression Against Ukraine: EU Adopts "Maintenance and Alignment" Package (July 22, 2022), https://www.consilium.europa.eu/en/press/press-releases/2022/07/21/russia-s-aggression-against-ukraine-eu-adopts-maintenance-and-alignment-package/ (on file with the *Ohio State Law Journal*).

[69] *Id.*

[70] *Id.*

[71] Press Release, Council of the Eur. Union, EU Adopts its Latest Package of Sanctions Against Russia Over the Illegal Annexation of Ukraine's Donetsk, Luhansk, Zaporizhzhia and Kherson Regions (Oct. 6, 2022), https://www.consilium.europa.eu/en/press/press-releases/2022/10/06/eu-adopts-its-latest-package-of-sanctions-against-russia-over-the-illegal-annexation-of-ukraine-s-donetsk-luhansk-zaporizhzhia-and-kherson-regions/ (on file with the *Ohio State Law Journal*).

focused on strengthening bilateral and multilateral cooperation with third countries in order to address the growing circumvention of EU sanctions.[72]

C. Effectiveness of the Economic Sanctions against Russia

To summarize, the main sanctions imposed by the U.S. and its Allies have been:

(i) asset freezing and travel bans targeting primarily Russian officials, elites propagandists, and associated entities;

(ii) export restrictions on products including: cutting-edge technology (e.g. quantum computers and advanced semiconductors, electronic components and software), machinery and transportation equipment, dual-use goods/technology, arms, civilian firearms, ammunition, military vehicles, paramilitary equipment, good, aviation, space industry and maritime navigation goods and technology, technology needed for oil refining, energy industry equipment, technology and services, and luxury goods;

(iii) banning the export of services like accounting, auditing, IT consultancy, legal advice, architecture and engineering services;

(iv) banning import of products including: crude oil and petroleum products, coal, steel, gold, cement, asphalt, wood, paper, synthetic rubber and plastics, seafood and liquor (e.g. caviar, vodka), cigarettes and cosmetics;

(v) closing airspace, seaports, and roads to Russian aircraft, vessels, and transport operators;

(vi) blocking access to Russia's Central bank reserve holdings and disconnecting the largest Russian financial institutions from the SWIFT international financial messaging system;

(vii) imposing a price cap on Russian crude oil and petroleum products exported to third countries, banning the provision of maritime transport,

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[72] Press Release, Council of the Eur. Union, Russia's War of Aggression Against Ukraine: EU Adopts 9th Package of Economic and Individual Sanctions (Dec. 16, 2022), https://www.consilium.europa.eu/en/press/press-releases/2022/12/16/russia-s-war-of-aggression-against-ukraine-eu-adopts-9th-package-of-economic-and-individual-sanctions/ (on file with the *Ohio State Law Journal*); Press Release, Council of the Eur. Union, One Year of Russia's Full-Scale Invasion and War of Aggression Against Ukraine, EU Adopts its 10th Package of Economic and Individual Sanctions (Feb. 25, 2023), https://www.consilium.europa.eu/en/press/press-releases/2023/02/25/one-year-of-russia-s-full-scale-invasion-and-war-of-aggression-against-ukraine-eu-adopts-its-10th-package-of-economic-and-individual-sanctions/ (on file with the *Ohio State Law Journal*); Press Release, Council of the Eur. Union, Russia's War of Aggression Against Ukraine: EU Adopts 11th Package of Economic and Individual Sanctions (June 23, 2023), https://www.consilium.europa.eu/en/press/press-releases/2023/06/23/russia-s-war-of-aggression-against-ukraine-eu-adopts-11th-package-of-economic-and-individual-sanctions/ (on file with the *Ohio State Law Journal*).

insurance and other assistance services for the transport of products sold above the cap.[73]

This system of sanctions has been widely defined by both U.S. and EU leaders as "unprecedented" in scale and scope,[74] but the economic impact on the Russian economy is much questioned.

It is hard to assess whether economic sanctions "work," because it is not clear what criteria should be applied to determine effectiveness,[75] and the success rate might differ greatly if we distinguish between economic effects and political outcomes.[76]

One method is to identify which policy goals were achieved and the extent to which sanctions contributed to the achievement.[77] When the goals are well defined, another option is to evaluate whether the goals would have been achieved in the absence of the sanctions.[78] Since assessments based on the political outcome are often possible only after a lengthy interval, another measure of sanction's effectiveness is the extent of the economic damage that they inflict on the target country.[79] However, it can also be the case that especially targeted sanctions impose minimal economic hardship but still effect policy change.[80]

As for the economic sanctions by Western democracies against Russia, on a political outcome level, by now they certainly have not stopped the war in Ukraine or prevented military aggression.[81] Also with respect to the economic damages, contrary to initial rhetoric the sanctions did not pummel the Russian

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[73] *See supra* Part III.B.

[74] *See* Press Release, White House, Fact Sheet: United States and G7 Partners Impose Severe Costs for Putin's War Against Ukraine (May 8, 2022), https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/08/fact-sheet-united-states-and-g7-partners-impose-severe-costs-for-putins-war-against-ukraine/ [https://perma.cc/EE9L-8PYV] ("Our unprecedented sanctions are already exacting an immense toll on Russia's economy and our export controls have strangled Russia's access to critical technology and the supply chains it needs to sustain its military ambitions."); CLARA PORTELA & JANIS KLUGE, EUR. UNION INS. FOR SEC. STUD., SLOW-ACTING TOOLS: EVALUATING EU SANCTIONS AGAINST RUSSIA AFTER THE INVASION OF UKRAINE 2 https://data.europa.eu/doi/10.2815/55415 [https://perma.cc/D9YJ-9GQN]; EU Sanction Against Russia Explained, *supra* note 57

[75] Levy, *supra* note 7, at 9.

[76] *See* MULDER, *supra* note 6, at 3–4.

[77] GARY CLYDE HUFBAUER, JEFFREY J. SCHOTT, KIMBERLY ANN ELLIOTT & BARBARA OEGG, ECONOMIC SANCTIONS RECONSIDERED 2 (3d. ed. 2007).

[78] *See id.* at 9.

[79] William H. Kaempfer & Anton D. Lowenberg, *The Theory of International Economic Sanctions: A Public Choice Approach*, 78 AM. ECON. REV. 786, 786 (1988).

[80] *Id.*

[81] *See* JEFFREY J. SCHOTT, PETERSON INST. FOR INT'L ECON., ECONOMIC SANCTIONS AGAINST RUSSIA: HOW EFFECTIVE? HOW DURABLE? 1 (Apr. 2023) https://www.piie.com/sites/default/files/2023-04/pb23-3.pdf [https://perma.cc/5FPK-XJJP].

economy.[82] It is true that overall the Russian economy is not growing, but the projections that the economic sanctions would have thwarted it proved to be wildly unrealistic, like the prediction of a double-digit decline in Russian GDP that turned into a modest recession of about two percent of GDP.[83] To the contrary, in 2022 value of Russian energy exports increased by 37 percent over 2021 levels, while revenues from the oil and gas industry increased by 28%.[84] However, sanctions have damaged the Russian economy, which is expected to suffer severely in the medium to long term.[85] In particular, sanctions contributed to a sharp compression of Russian import, made it more complicated and costly to import important military/industrial components, impaired Russia's access to Western technologies and inputs needed to sustain its conventional military operations in Ukraine, and made it more difficult to retain and attract foreign investment to support Russian economic growth.[86] Moreover, after the G7 approval of a cap on the price of Russian oil, Russia's oil and gas export revenues are expected to decrease significantly, with negative implications for Russia's federal budget moving forward.[87]

Notably, within the economic sanctions there has been a factor that has been considered essential not only for the immediate effect on weakening activity in Russia but also for profoundly impacting Russia's economic prospects: private sanctions.[88]

IV. PRIVATE SANCTIONS

A. Private Sanctions Against Russia

Not only did governments took action, but also companies took a stance against Russian's invasion by closing their stores in Russia, suspending their operations, pausing new investments, and even completely exiting the country,

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[82] *Id.*

[83] Beth Timmins & Ben King, *Russia's Economy Shrinks by Less than Expected*, BBC NEWS (Feb. 20, 2023), https://www.bbc.com/news/business-64708832 [https://perma.cc/H3DZ-LJ4N] ("The Institute of International Finance had predicted the Russian economy would shrink by 15% in 2022 and last March, US President Joe Biden said it was 'on track to be cut in half.'").

[84] Zsolt Darvas, Catarina Martins, Conor McCaffrey & Luca Léry Moffat, *Russian Foreign Trade Tracker*, BRUEGEL, https://www.bruegel.org/dataset/russian-foreign-trade-tracker [https://perma.cc/U44T-EL74].

[85] DEMERTZIS, HILGENSTOCK, MCWILLIAMS, RIBAKOVA & TAGLIAPIETRA, *supra* note 8, at 2.

[86] *See* SCHOTT, *supra* note 81, at 1.

[87] *See* Gubad Ibadoghlu, *What Impact Have EU Sanctions Had on the Russian Economy?*, LONDON SCH. OF ECON. & POL. SCI.: EURO. POL. & POL'Y BLOG (Mar. 13, 2023), https://blogs.lse.ac.uk/europpblog/2023/03/13/what-impact-have-eu-sanctions-had-on-the-russian-economy/ [https://perma.cc/AA5V-63SE].

[88] *See id.*

in a wave of so-called "private sanctions."[89] Namely, with private sanctions we refer to cases where companies voluntarily withdrew from Russia even if not required to do so because in sectors outside the scope of the governments' sanctions.

B. Drivers

Why did so many companies withdraw from Russia when they were not required to do so by the economic sanctions and even if the decision could cost billions of dollars?

In this section we describe the main potential drivers of business decisions to exit Russia. The list is non-exhaustive and none of these factors alone is able to explain the huge corporate exodus from Russia but taken together they can help understand what could have motivated individual companies to leave.

1. The Economic Sanctions

First, the economic sanctions significantly influenced corporate voluntary self-sanctioning. The sanctions have created an environment of legal and financial hostility for many companies that were not directly affected by the measures, making compliance complicated and often impairing the ability of firms to continue their Russian operations as before.[90] As a consequence, we witnessed a spread and pronounced form of "overcompliance" with economic sanctions.[91]

Some firms have rolled back commercial engagement in an attempt to reduce the likelihood of secondary sanctions exposure. Companies who do business with entities named by sanctions as primary targets risk being hit with secondary sanctions themselves, and to avoid inadvertent violations they need thorough pre-transaction investigations and know-your-customer inquiries for transactions near the periphery of sanctions regimes.[92] Some companies have claimed that, because regulators described sanctioned activities in vague terms, they were uncertain about the scope and application of sanctions, thereby choosing to withdraw to avoid risk.[93] Others decided to exit in anticipation of future rounds of sanctions. We witnessed a clear example in the lucrative energy markets: in mid-March 2022, the EU sanctions prohibited investments in the Russian energy sector impacting Russian energy companies Rosneft, Transneft,

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89 Sonnenfeld et al., *supra* note 4.

90 Alan Beattie, *Sanctions More Than Ethics Have Spurred Corporate Flight from Russia*, FIN. TIMES (Mar. 9, 2022), https://www.ft.com/content/fed1ebb5-e97d-424f-a313-2bb0d1cb8181 [https://perma.cc/3HB3-QFYZ].

91 *See* Part V.

92 Richard L. Kilpatrick, Jr., *Self- Sanctioning Russi*a, EUR. J. INTL. L.: TALK! (May 11, 2022), https://www.ejiltalk.org/self-sanctioning-russia/ [https://perma.cc/2RKF-C7FW].

93 Parella, *supra* note 30, at 16–17.

and Gazprom Neft while clarifying to industry participants that sanctions allowed them to still purchase oil from these companies.[94] Nonetheless, two weeks earlier several big companies such as Shell and BP self-sanctioned by divesting their equity stakes in these same Russian state-owned energy businesses.[95]

2. Political Pressure

In addition to the sanctions, also Western governments and in particular the Ukrainian government pressured firms to cut ties with Russia.

In the U.S. there has been a strong bipartisan consensus–especially at the beginning of the conflict–on the need to support Ukraine and to condemn Putin's invasion, which has resulted in political statements also involving businesses. For example, both republican and democrat governors have placed limitations on the sale of Russian vodkas in their states.[96]

Ukrainian government officials used Twitter to publicly shame firms that kept operating in Russia. For instance, Ukrainian Prime Minister Denys Shmyhal and Ukrainian Minister Mykhailo Fedorov tweeted to call out the CEOs respectively of Nestlé and Apple demanding they stop doing business in Russia.[97] Soon after, the two companies decided to pull out of Russia.[98]

The primary political pressure for Western firms can be attributed to the intervention of Ukrainian President Volodymyr Zelensky, who explicitly called upon global companies to urgently exit Russia.[99] During his address to the U.S. Congress on March 16, President Zelensky urged lawmakers to encourage companies from their respective states to cease their business activities in Russia, saying the Russian market is "flooded with our blood."[100] In a separate address the day before, the Ukrainian President specifically targeted certain

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[94] *Id.*

[95] *Id.*

[96] *See* Paulina Firozi & Annabelle Timsit, *Russian Vodka Boycotts Show Solidarity With Ukraine — but Will Have Little Financial Impact, Experts Say*, WASH. POST (Mar. 5, 2022), https://www.washingtonpost.com/business/2022/03/01/russian-made-vodka-boycotts/ [https://perma.cc/3KKC-LVVZ].

[97] Parella, *supra* note 30, at 17–18.

[98] *Id.*

[99] Tali Arbel, *Pressure Mounts for Multinationals in Russia to Leave*, ASSOCIATED PRESS (Mar. 17, 2022), https://apnews.com/article/russia-ukraine-zelenskyy-business-europe-68afe2bc8c4ed4e7adba9ddd30c3ada9 [https://perma.cc/HDZ3-56AE].

[100] *Id.* President Zelensky said: "If you have companies in your districts who financed the Russian military machine . . . You should put pressure . . . I am asking to make sure that the Russians do not receive a single penny that they use to destroy people in Ukraine." Saabira Chaudhuri & Denise Roland, *Ukraine's Zelensky Urges Global Businesses to Exit Russia in Speech to Congress*, WALL ST. J. (Mar. 16, 2022), https://www.wsj.com/articles/ukraines-zelensky-urges-businesses-to-leave-russia-in-speech-to-congress-11647448370?mod=article_inline [https://perma.cc/AH8F-RQHE].

companies that were still conducting business in Russia.[101] He mentioned food companies Nestlé and Mondelez, consumer goods manufacturers Unilever and Johnson & Johnson, European banks Raiffeisen and Société Générale, electronics giants Samsung and LG, chemicals producer BASF, as well as pharmaceutical companies Bayer and Sanofi, stating that they, along with "dozens of other companies," had not withdrawn from the Russian market.[102] Furthermore, during a speech to the French parliament on March 23, President Zelensky pressed French companies that were still conducting business in Russia to exit, arguing that remaining in the country would have made them "sponsors" of war.[103]

3. Consumer Pressure

Western companies that chose to maintain their operations in Russia despite the ongoing conflict faced intense criticism from both consumers and employees. In solidarity with Ukraine, people worldwide began calling out big companies that had not left Russia or had not taken a strong enough stance against the invading nation.[104]

A recent study surveyed a sample of the U.S. population to understand stakeholders' will to see their companies exit Russia following the invasion of Ukraine.[105] According to the survey results, 61% of respondents think that firms should exit Russia, regardless of the consequences.[106] Additionally, 66% of the respondents are willing to boycott a firm if it does not align with these desires.[107] Their findings show that the willingness to pay for sanctions and the effects of boycotting on businesses are larger among consumers.[108] Consistently, a survey by Morning Consult reports that 78% of Americans supported companies'

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101 Arbel, *supra* note 99.

102 *Id.*

103 *See* Volodymyr Zelenskyy, President of Ukr., Speech by the President of Ukraine at a Joint Meeting of the Senate, the National Assembly of the French Republic and the Council of Paris (Mar. 23, 2022), https://www.president.gov.ua/en/news/promova-prezidenta-ukrayini-na-spilnomu-zibranni-senatu-naci-73773 (on file with the *Ohio State Law Journal*) ("French companies must leave the Russian market. Renault, Auchan, Leroy Merlin and others. They must cease to be sponsors of Russia's military machine, sponsors of the killing of children and women, sponsors of rape, robbery and looting by the Russian army. All companies must remember once and for all that values are worth more than profit. Especially profit on blood.").

104 *See e.g.*, Wesley Case, *Americans Overwhelmingly Want Companies to Take Action Against Russia Over Ukraine Invasion*, MORNING CONSULT (Feb. 28, 2022), https://pro.morningconsult.com/instant-intel/russia-ukraine-invasion-companies-take-action [https://perma.cc/4RDW-T6MZ].

105 Hart, Thesmar & Zingales, *supra* note 3, at 1.

106 *Id.*

107 *Id.*

108 *Id.* at 6.

decision to cut ties with Russia and stop sales of products and services in Russia, with the support being particularly strong among Millennials and Gen-Z adults.[109] As a result, the business decision to withdraw from Russia has been described as "a rare opportunity to align its interests with the concerns of most Americans, particularly younger, more socially active consumers—a prized demographic for youth-conscious corporations."[110]

The pressure on companies has been intensified by the release of a list tracking corporate responses to the Russia's invasion of Ukraine by Professor Jeffrey Sonnenfeld and the Yale School of Management (SOM).[111] The list covers more than 1,000 public and private companies from across the globe, and it places businesses in one of five categories based on their level of withdrawal from Russia.[112] This begins with an A rating for those that made a clean break or permanently exited, and it ends with an F grade for those that are "digging in" and refusing to decrease their activities in Russia.[113] The explicit goal of the list was to push every company to publicly commit to leaving Russia, encouraging boycotts of firms that defy pressure to do so.[114] The list gained significant attention with widespread media coverage and circulation.[115]

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109 Case, *supra* note 104.

110 James R. Bailey, *When Business Aligns with Activism*, HILL (Mar. 12, 2022), https://thehill.com/opinion/finance/597810-when-business-aligns-with-activism/ [https://perma.cc/7P4R-NYDV].

111 Sonnenfeld et al., *supra* note 4.

112 Jeffrey Sonnenfeld, Steven Tian & Steven Zaslavsky, *Businesses That Refuse to Leave Russia are Experiencing the Greatest Costs*, WASH. POST (Apr. 26, 2022), https://www.washingtonpost.com/opinions/2022/04/26/businesses-that-left-russia-not-hurting-better-off/ [https://perma.cc/XHA7-PK2J].

113 *Id.*

114 Jeffrey Sonnenfeld & Steven Tian, *Some of the Biggest Brands Are Leaving Russia. Others Just Can't Quit Putin. Here's a List.*, N.Y. TIMES (Apr. 7, 2022), https://www.nytimes.com/interactive/2022/04/07/opinion/companies-ukraine-boycott.html [https://perma.cc/AJ9H-PLES].

115 *See* Jeffrey A. Sonnenfeld, Steven Tian, Steven Zaslavsky, Yash Bhansali & Ryan Vakil, *It Pays for Companies to Leave Russia* (Yale Chief Exec. Leadership Inst., Working Paper), https://ssrn.com/abstract=4112885 [https://perma.cc/WHZ8-DTYC] ("In the two months since, this list of companies staying/leaving Russia has already garnered significant attention for its role in helping catalyze the mass corporate exodus from Russia, with widespread media coverage and circulation across company boardrooms, policymaker circles, and other communities of concerned citizens around the world. The authors have also written short editorials for The New York Times, The Washington Post, Fortune, amongst others; each of which were the most-read articles in their respective outlets for at least 36 hours upon publication."); *see also* Jeffrey Sonnenfeld & Steven Tian, *A Widely Shared List of U.S. Companies Leaving and Staying in Russia is Holding Business Leaders Accountable*, FORTUNE (Mar. 16, 2022), https://fortune.com/2022/03/16/companies-leaving-russia-list-accountability/ [https://perma.cc/37J7-BHVV] ("[O]ur list provided a much cited 'hall of shame' that guided the voices of employees, customers, and investors seeking to show their disapproval. In fact, the first day our list appeared on CNBC, many of the companies

Twitter has emerged as the favorite venue for these campaigns.[116] Following the Russian assault, countless tweets pressured companies that maintained operations with Russia to cut their ties.[117] Hashtags calling for boycotts of big multinational firms quickly gained traction and support.[118] In our previous study, we empirically show how viral boycott campaigns on Twitter were significantly associated with companies' decision to withdraw from Russia, highlighting the important role that boycotts played in pressuring companies to exit.[119]

4. Market Pressure

Market pressure has been another driver for business decisions to exit Russia, especially for large, well-known firms that were more heavily pushed by their investors to cease operations in Russia.[120]

Some investors explicitly called out businesses. For instance, New York State Comptroller Thomas P. DiNapoli sent letters to several big companies, such as McDonald's, PepsiCo, Mondelez, and Estee Lauder, urging them to reconsider their activity in Russia and pause or end their operations in the country because that "would address various investment risks associated with the Russian market."[121]

Furthermore, research conducted by Professor Sonnenfeld and the team from Yale SOM (School of Management) argues that companies that curtailed their operations in Russia have generally exhibited better performance compared to companies that did not take such actions.[122] Specifically, the companies graded with an "F" according to the Yale list consistently underperformed other categories to a statistically significant degree.[123] To the contrary, for companies that chose to withdraw from Russia, the creation of

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we identified as remaining in Russia saw their stocks drop 15% to 30%, on a day where the key market indexes fell only two to three percent.").

[116] Anete Pajuste & Anna Toniolo, *Corporate Response To The War In Ukraine: Stakeholder Governance Or Stakeholder Pressure?*, 10 EMORY CORP. GOVERNANCE & ACCOUNTABILITY REV. 1, 2 (2022).

[117] *Id.* at 7.

[118] *Id.* at 24.

[119] *Id.*at 7.

[120] *See* Tetyana Balyuk & Anastassia Fedyk, *Divesting Under Pressure: U.S. Firms' Exit in Response to Russia's War Against Ukraine*, J. COMPAR. ECON. (forthcoming 2023) (manuscript at 26), https://ssrn.com/abstract=4097225 [https://perma.cc/46HX-ELDF].

[121] Hilary Russ, *McDonald's, Pepsi, Others Should Consider Pausing Russia Operations—NY Pension Fund*, REUTERS (Mar. 4, 2022), https://www.reuters.com/business/retail-consumer/mcdonalds-pepsi-others-should-consider-pausing-russia-operations-ny-pension-fund-2022-03-04/ [https://perma.cc/96XP-AW6L].

[122] Sonnenfeld et al., *supra* note 4, at 16.

[123] *Id.*

wealth through gains in shareholder equity significantly outweighed the costs incurred from write-downs of Russian assets.[124]

However, the results are not unequivocal, and other studies conclude that exit from Russia was not financially beneficial for businesses. For example, one paper finds that companies that decided to exit Russia experienced significantly lower returns compared to those that continued their operations or had not yet reached a final decision. [125] The study also observes that the negative market reaction was more pronounced for European manufacturers announcing plans to leave Russia and European service firms deciding to stay, suggesting that the industry category played an important role.[126] Certain media outlets reported negative effects from exiting Russia as well.[127] Finally, other scholarship underscores how factors such as regulatory climate risks[128] and geography[129] impacted the stock market response.

C. Brakes

In addition to the factors that might have driven corporations to exit Russia, it is important to examine also the reasons why other businesses decided instead to remain in Russia.

1. High Revenue Exposure

The first "brake" from cutting ties with Russia might be a significant revenue exposure to the country.

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124 *Id.* at 17.

125 *See* Florian Kiesel & Sascha Kolaric, *Should I Stay or Should I Go? Stock Market Reactions to Companies' Decisions in the Wake of the Russia-Ukraine Conflict*, 89 J. INT'L FIN. MKTS., INSTS. & MONEY 101862 (2023).

126 *Id.* (manuscript at 10).

127 *See e.g.*, Jean Eaglesham & Thomas Gryta, *Companies Size Up Their Losses on Russian Operations*, WALL ST. J. (Apr. 14, 2022), https://www.wsj.com/articles/companies-size-up-their-losses-on-russian-operations-11649928600 [https://perma.cc/Z4DD-LYYL].

128 *See generally* Ming Deng, Markus Leippold, Alexander F. Wagner & Qian Wang, *War and Policy: Investor Expectations on the Net-Zero Transition* (Swiss Fin. Inst. Rsch. Paper No. 22-29, 2022), https://ssrn.com/abstract=4080181 [https://perma.cc/9DYE-7VP4] (finding that firms with higher exposure to climate transition risk performed better, especially in the U.S., while firms for which a textual measure suggests strong exposure to inflation risks performed worse).

129 *See generally* Jonathan Federle, André Meier, Gernot J. Müller & Victor Sehn, *Proximity to War: The Stock Market Response to the Russian Invasion of Ukraine* (CEPR Discussion Paper No. DP17185, 2022), https://ssrn.com/abstract=4121360 [https://perma.cc/L6H6-ZRGD] (documenting that countries geographically close to the war, on average, faced an abnormal decline in equity indices, while countries located at a greater distance fared much better in comparison).

In our previous study, we investigated the relationship between company revenue, exposure to Russia, and the speed of the announcement to withdraw or suspend Russian operations.[130] The findings show that the average exposure to Russia of early announcers – i.e. the companies that announced they were withdrawing from Russia even before the boycott campaign spiked and the first version of the Yale SOM list was released – is smaller than that of the non-early movers.[131]

Our results are consistent with the intuition that it is much easier for companies to leave Russia if their exit does not impact their sales significantly.[132] In contrast, if the Russian market represents a significant share of revenue, firms may be more hesitant to leave.[133]

2. Organizational and operational factors

Organizational and operational factors can create significant barriers to exit.

As a recent paper argues, "business's ability to engage in sanctioning depends on whether its business model allows for centralized or decentralized decision-making regarding business suspension, termination, and exit."[134]

Halting business in Russia has been easier for Western companies who own and operate their stores in the foreign country.[135] However, many multinational enterprises entered and expanded their business in Russia through a franchise model, with franchise agreements providing that stores are operated by third parties. [136] Consequently, these international franchises had not full control over the Russian locations once the war in Ukraine started.[137]

For example, among restaurant chains, for McDonald's store closure was not excessively difficult, because "it owns 84 percent of the 847 McDonald's locations in Russia."[138] Similarly, Starbucks was able to suspend all business activity in Russia because their "licensed partner has agreed to immediately pause store operations and will provide support to the nearly 2,000 partners in

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130 *See generally* Pajuste &Toniolo, *supra* note 116.
131 *Id.* at 6.
132 *Id.* at 7.
133 *Id.*
134 Parella, *supra* note 30, at 22.
135 *Id.* at 5.
136 *Id.* at 6.
137 Mary Hanbury & Mary Meisenzahl, *Why McDonald's, Burger King, and Papa John's Can't Just Close All Their Stores in Russia*, BUS. INSIDER (Mar. 19, 2022), https://www.businessinsider.com/why-mcdonalds-burger-king-papa-johns-cant-close-russia-restaurants-2022-3 [https://perma.cc/DQM3-4S33].
138 Julie Creswell, *He's American, He Oversees Papa John's in Russia and He's Staying*, N.Y. TIMES (Mar. 14, 2022), https://www.nytimes.com/2022/03/14/business/papa-johns-russia.html [https://perma.cc/VPX9-U4PZ].

Russia who depend on Starbucks for their livelihood."[139] In contrast, Papa John's could not entirely cut ties with Russia, since one of its franchise owners refused to close his nearly 200 stores across the country.[140] Likewise, Burger King, but also Hotel franchise chains like Marriott and Hilton encountered significant constraints due to the legal risks they would have faced in case of breach of the franchise master agreement and the impossibility to terminate franchise agreements with franchisees who refused to shut down their operations.[141]

This interdependence can be small when the subsidiary has just a sales and service role, as for example for specialist retailers such as Decathlon and OBI, and in this case the decision to close a subsidiary in one country does not necessarily affect global operations.[142] However, in other circumstances the interdependence is high and disruptive for the parent organization.[143] This happens when the subsidiary is procuring critical raw materials or intermediate products for the parent that cannot easily be obtained elsewhere, as it is for example for Danish building materials producer Rockwool.[144] The interdependence is also complex in many manufacturing value chains, such as the automotive and machine tool industries, where products and knowledge flow in multiple directions between units in different countries.[145] Therefore, if companies decide to close one operation, they will have to change and extend their supply chains, which in turn takes time in order to avoid disruptions or supply quality problems.[146]

3. Regulatory factors

Finally, the decision to stay in Russia could have been influenced by regulatory factors and in particular by the several measures adopted by the Russian government as retaliation against the economic sanctions.

On March 6, the Russian government issued a decree that granted them the authority to utilize foreign patents without the consent of the patent holders and

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[139] Letter from Kevin Johnson, President & Chief Exec. Officer, Starbucks Corp., to Starbucks Partners (Mar. 8, 2022), https://stories.starbucks.com/press/2022/update-to-starbucks-partners-on-our-business-in-russia/ [https://perma.cc/XZ9Q-XN59].

[140] Creswell, *supra* note 138.

[141] Michael Race, *The Western Brands Unable to Leave Russia*, BBC NEWS (Mar. 16, 2022), https://www.bbc.com/news/business-60733389 [https://perma.cc/2PCW-RLBW].

[142] Saul Estrin & Klaus E. Meyer, *Why It's So Difficult for Companies to Leave Russia*, LONDON SCH. OF ECON. & POL. SCI.: BUS. REV. BLOG (Mar. 28, 2023), https://blogs.lse.ac.uk/businessreview/2023/03/28/why-its-so-difficult-for-companies-to-leave-russia/ [https://perma.cc/3XSU-83A6].

[143] *Id.*

[144] *Id.*

[145] *Id.*

[146] *Id.*

without paying royalties.[147] The decree explicitly states that companies from "unfriendly states" will be denied compensation and mandated to issue licenses to Russian entities.[148] Moreover, Russia has been progressing with legislation, supported by the Russian President, aimed at nationalizing the assets of foreign companies that choose to leave the country due to its invasion of Ukraine.[149] Following Putin's endorsement of the bill, Russian prosecutors reportedly issued warnings to several Western companies operating in Russia, including Coca-Cola, McDonald's, Apple, IKEA, Microsoft, IBM and Porsche, threatening to arrest corporate leaders who voiced criticism against the government or to seize assets of companies that pulled out of the country.[150]

The retaliation measures affect firms very differently. For some companies, the consequences may involve relatively minor financial burdens, such as the loss of leases on stores or offices. In contrast, for businesses that rely on costly manufacturing equipment or logistics assets like warehouses and truck fleets, the impact is more substantial. An illustrative example can be seen in the auto industry, which has been one of the major Western investments in Russia over the past two decades and has been severely impacted.[151] The extent of the

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147 *See* Hannah Knowles & Zina Pozen, *Russia Says Its Businesses Can Steal Patents from Anyone in 'Unfriendly' Countries*, WASH. POST (Mar. 9, 2022), https://www.washingtonpost.com/business/2022/03/09/russia-allows-patent-theft/ [https://perma.cc/7JU7-HP5Y].

148 Bruce Love, *Russian Patents Grab Deemed 'Act of War'*, FIN. TIMES (June 15, 2022), https://www.ft.com/content/1ee7a359-8561-4679-bc84-59f55157e9bd [https://perma.cc/8KVX-BA6M].

149 Evan Gershkovich, *Russia Advances Law on Nationalizing Assets of Foreign Companies*, WALL ST. J. (Apr. 12, 2022), https://www.wsj.com/livecoverage/russia-ukraine-latest-news-2022-04-12/card/russia-advances-law-on-nationalizing-assets-of-foreign-companies-XT2HMh3ljjvy0magt318 [https://perma.cc/5MPD-AR62]; Evan Gershkovich, *Russia Moves Ahead with Bill on Nationalizing Assets of Foreign Companies*, WALL ST. J. (May 24, 2022), https://www.wsj.com/livecoverage/russia-ukraine-latest-news-2022-05-24/card/russia-moves-ahead-with-bill-on-nationalizing-assets-of-foreign-companies-OQ8d2B8n2MlAdNKwQRKf [https://perma.cc/UW6N-PKRC].

150 Jennifer Maloney, Emily Glazer & Heather Haddon, *Russian Prosecutors Warn Western Companies of Arrests, Asset Seizures*, WALL ST. J., https://www.wsj.com/articles/russian-prosecutors-warn-western-companies-of-arrests-asset-seizures-11647206193 [https://perma.cc/89NX-QC3W]. The same day, the Russian embassy in Washington dismissed the news as fake, and tweeted that: "The decision whether to continue entrepreneurial activity in our country is entirely up to the Americans. As well as the right to ignore the russophobic hysteria that encourages foreign businesses to suffer huge losses in order to hit @Russia." *See* Russian Embassy in USA (@RusEmbUSA), TWITTER (Mar. 13, 2022, 9:38 PM), https://twitter.com/RusEmbUSA/status/1503183720664158208 [https://perma.cc/JNK8-9SS4].

151 GARY SILBERG, THE IMPACT OF THE RUSSIA-UKRAINE WAR ON THE AUTO INDUSTRY 1 (2022), https://kpmg.com/kpmg-us/content/dam/kpmg/pdf/2023/impact-auto-industry.pdf [https://perma.cc/BY7H-SUJ7].

impact from losing patent protection or intellectual property in the event of nationalization will also differ from one company to another, depending on the value of the patent or intellectual property in Russia.[152]

In addition to the expropriation of assets, in October 2022 Putin adopted another law that imposed harsh sale restrictions on foreign banks doing business in Russia.[153] Namely, Putin approved a list of 45 local banks in which stakes cannot be sold without his permission.[154] The list includes subsidiaries of U.S. banks, such as Citigroup Inc., and European banks such as UniCredit SpA, Intesa Sanpaolo SpA, Credit Suisse Group AG, Raiffeisen Bank International AG and Commerzbank AG. RBI and UniCredit, which are both qualified as systemically important banks in Russia, are the largest units in terms of asset size.[155] Advisers to Western banks trying to exit Russia said that the law is not only disrupting sales, but it is also allowing deals to be hijacked by businesspeople close to the Kremlin.[156] As a consequence, while only a handful of western credit institutions have managed to leave Russia, many other have chosen to hold on to their businesses in the country.[157]

Finally, on December 30, 2022, Russian Governmental Subcommission of the Commission of the Ministry of Finance on Foreign Investments published revised rules and criteria for authorization of the sale of assets in Russian companies involving persons from unfriendly states.[158] According to the document, companies leaving Russia are required to sell their operations for at least half price and to pay 10% of the sale to the Russian federal budget (termed as "exit tax" by the U.S. Treasury, even though it is not technically a tax).[159] The new changes in the Russian regulations reportedly had a major impact on the operating environment for Western companies trying to withdraw from Russia.[160]

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[152] Knowles & Pozen, *supra* note 147.

[153] Beata Fojcik, *Russia Exit Still Possible if Foreign Banks Willing to Stomach Losses*, S&P GLOB. MKT. INTELL. (Nov. 21, 2022), https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/russia-exit-still-possible-if-foreign-banks-willing-to-stomach-losses-73035806 [https://perma.cc/7L9T-YH2W].

[154] *Id.*

[155] *Id.*

[156] Owen Walker, *Western Banks Struggle to Exit Russia After Putin Intervention*, FIN. TIMES (Jan. 16, 2023), https://www.ft.com/content/98f91997-db83-4a23-8497-9348c7e7247f [https://perma.cc/Y74J-WKA7].

[157] *Id.*

[158] Alexander Marrow, *Remaining Western Firms Face Tricky Russian Exits*, REUTERS (June 1, 2023), https://www.reuters.com/business/remaining-western-firms-face-tricky-russian-exits-2023-06-01/ [https://perma.cc/UJS2-3RSF].

[159] *Id.*

[160] *Id.*

V. EMPIRICAL ANALYSIS

In this section, we empirically examine the companies' exit strategy from Russia following the country's invasion of Ukraine in February 2022. Western nations' imposition of severe sanctions, alongside the voluntary self-sanctions imposed by private companies, has led to a significant exodus of foreign firms from Russia. By comparing companies that exited or continued operations in Russia, we gain insights into the potential of private sanctions to complement economic sanctions in modern warfare.

A. Sample Description

For our empirical analysis, we use the sample of companies from our previous study,[161] namely U.S. and European companies included in the S&P500 and STOXX 600 indices with available FactSet's Geographic Revenue Exposure (GeoRev) data and Twitter handles. The initial sample consists of 665 companies, which is further reduced to the sample of 223 companies included in the Yale SOM list. Out of these 223 companies, we select all the firms with Grades A (Withdrawal) and Grades D (Buying Time) and Grade F (Digging In) as of June 2023. We further read company public statements and hand-collect data on factors supporting and preventing companies from leaving their Russian operations.

The final sample for our empirical analyses consists of 80 companies, 48 of which decided to exit Russia following the invasion of Ukraine and 32 of which opted to continue their operations in the country. Most of the 'stay in Russia' companies are assigned a Grade D (Buying Time) and only three (IQVIA Holdings, Raiffeisen Bank, and UniCredit) have a Grade F (Digging In).

B. Private Sanction Drivers and Brakes by Company

Using hand-collected data from public statements, we create a firm-level "net private sanction" variable, which quantifies the overall impact of various drivers and brakes on private sanctions. The *net private sanction* is determined by calculating the difference between three potential drivers and three potential brakes. Firstly, the drivers include economic sanctions imposed by governments, consumer boycott campaigns, and market pressure reflected in stock price decreases. These factors are considered as potential catalysts for private sanctions. Conversely, the brakes encompass three key obstacles: revenue exposure to Russia, operational and business model challenges, and legal and regulatory barriers. These factors act as mitigating factors that may deter companies from imposing private sanctions. By coding and evaluating the net private sanction variable, we aim to provide an assessment of the overall

161 Pajuste & Toniolo, *supra* note 116, at 6.

influence of drivers and brakes on the adoption of private sanctions by companies operating in Russia.

In our analysis, we consider three key drivers that contribute to the net private sanction variable. The first driver is economic sanctions imposed by governments, which primarily target specific industries or sectors, such as closing Russian airspace or imposing bans on financial and other services to and from Russia. These government-driven measures exert significant pressure on companies operating in Russia. The *E* (Economic sanctions) variable equals one for companies severely affected by economic sanctions, and zero otherwise.

The second driver involves consumer boycott campaigns, which we previously studied by collecting and analyzing tweets (including retweets) during the 60-day period following the Russian invasion of Ukraine. Our findings from this research indicate that stakeholder pressure, manifested through social media campaigns, can effectively signal people's social preferences and influence managerial decision-making by potentially damaging corporate reputation. The rapid and widespread nature of these boycott campaigns, especially exemplified by the viral Yale SOM list, contributed to a unique and unparalleled level of stakeholder pressure. The *B* (Boycott Pressure) variable equals one for companies which experienced a viral boycott campaign by the earliest of their *leave Russia* announcement or the first two months after the start of the war.

Lastly, we incorporate high market pressure as another driver. We code this variable as one if the 10-day stock returns after the onset of the war (from February 23 to March 9) are below the median (-4.6%) among the 223 sample companies. This market pressure serves as an indicator of the financial implications and market sentiment surrounding companies with exposure to Russia during the early stages of the conflict.

Within the brakes category, we identify three key obstacles that contribute to the net private sanction variable. The first brake is revenue exposure to Russia (the *G* (Geographic Exposure) variable), which we code as one if the FactSet's GeoRev variable is above the median (1.4% of total revenues) among the 223 sample companies. This indicates a higher level of revenue dependence on the Russian market, making it more challenging for companies to disengage.

Operational and business model challenges represent another significant brake (the *O* (Operational Exposure) variable). The decision to impose private sanctions and exit a country can be influenced by organizational and operational factors. Companies with larger operations, more employees, and manufacturing facilities face greater organizational challenges when attempting to exit Russia. The complexities of managing a significant presence, including logistics, human resources, and manufacturing operations, make the exit process more intricate. Disentangling supply chains, addressing employee considerations, and unwinding lease agreements pose significant hurdles. In contrast, companies with service-based models or partnerships experience fewer difficulties.

Finally, legal and regulatory barriers also serve as a substantial brake (the *R* (Regulatory barrier) variable). The Russian government retaliated against

economic sanctions by adopting various measures that posed obstacles for companies considering an exit. Prosecutors in Russia warned some Western companies that shutting down production or exiting their business could be considered criminal bankruptcy, exposing their staff to potential prosecution. These legal and regulatory risks, along with the possibility of employee arrests, further complicate the decision-making process for companies considering a Russian exit.

C. Results

Table 1 presents the results of our analysis, which utilizes data from public statements to construct a firm-level "net private sanction" variable. This variable captures the overall influence of several drivers and brakes on private sanctions, calculated as the difference between three potential drivers and three potential brakes. Table 1 presents the average net private sanction variable for companies that chose to leave Russia (Grade A) and companies that decided to continue their operations (Grade D&F). Appendix Table A.1 further provides detailed company-level data on the drivers and brakes of private sanctions, offering a comprehensive breakdown of the specific factors influencing private sanction decisions. This analysis provides insights into the contrasting impact of private sanctions on these distinct sets of companies.

Table 1. Net Private Sanctions by Exit Strategy

	Drivers (max 3)	Brakes (max 3)	NET Private Sanctions
Average for 48 *LEAVE* (A) firms (Table A.1, Panel A)	1.21	0.90	0.31
Average for 32 *STAY* (D&F) firms (Table A.1, Panel B)	0.97	1.78	-0.81
Difference A vs. D&F (p-value)	*0.206*	*0.000****	*0.000****

Note. The table shows average values for variables related to private sanctions by two sets of companies – Grade A (Withdrawal) and Grade D&F (Buying Time and Digging In). The "Drivers" variable represents the sum of three factors: economic sanctions (E), boycott pressure (B), and market pressure (M), with values ranging from 0 to 3. The "Brakes" variable represents the sum of three factors: geographic revenue exposure (G), operational obstacles (O), and regulatory and legal obstacles (R), also ranging from 0 to 3. The "Net private sanctions" variable indicates the difference between the "Drivers" and "Brakes" variables, with values ranging from -3 to +3. The last row reports the p-values of a two-sided mean difference test.

The results reported in Table 1 support our argument regarding the drivers and brakes of private sanctions. We find that the *net private sanction* variable is positive and significantly higher for companies that chose to leave Russia compared to those that decided to continue their operations (0.31 vs. -0.81). A positive net private sanctions variable indicates that companies have a greater incentive to impose private sanctions. This implies that the presence of drivers, such as economic sanctions, boycott campaigns, and market pressure, outweighs the impact of brakes, including revenue exposure to Russia, operational obstacles, and regulatory and legal barriers. The positive net private sanctions

variable suggests that the motivating factors for companies to take action through private sanctions are stronger than the hindrances they face in terms of revenue dependence, operational challenges, and regulatory constraints.

This difference in net private sanctions variable is primarily driven by a significantly lower average number of private sanction brakes (0.90 vs. 1.78) for companies that left Russia. On the other hand, while the average number of private sanction drivers is higher for companies that left Russia compared to those that stayed (1.21 vs. 0.97), the difference is not statistically significant. These findings indicate that the presence of obstacles and challenges (represented by the private sanction brakes) plays a crucial role in influencing the decision to exit Russia, while the impact of drivers alone does not reach statistical significance.

VI. IMPLICATIONS

In this Section, we briefly outline the two key implications of our analysis. We discuss each of them in turn briefly below.

A. Private Sanctions as a Geopolitical Tool

The descriptive account we provided for both the economic sanctions and the private sanctions shows how they tightly interact with one another, with the latter significantly amplifying the effects of the former. Self-sanctioning has increased both the scale and magnitude of economic sanctions' impact, which in turns has likely been much greater than policymakers anticipated. The result is that sanctioning actors in the warfare context are no longer necessarily only governments, but they can be also transnational corporations, creating what has been defined "the privatization of foreign policy."[162] Policymakers will need to take into consideration that their sanctions could be supplemented by private sanctions when designing and calibrating their national foreign policy.

B. The Future of Private Sanctions

Given the effectiveness of private sanctions in response to the Russian invasion of Ukraine, the question is whether we should expect a similar corporate reaction in future crises. In order to assess and even predict whether companies will sanction a country due to its human rights abuses or the risk of military aggression, it is important to look not only at the potential drivers, but also at the barriers to exit that we identify in our analysis.

For example, currently companies operating in China face the risk of a potential armed conflict over Taiwan.[163] However, it seems unlikely that we will witness a corporate exodus from China like the one we saw from Russia.

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162 Parella, *supra* note 30, at 40.
163 *Id.* at 30.

The main reason is that the brakes are much stronger. Not only the revenue exposure is significantly higher, but more broadly China offers operational and organizational advantages that would be difficult to relocate and replicate elsewhere.[164]

In addition, also with respect to the drivers it is important to underscore that the stakeholders' willingness to impose private sanctions is highly dependent upon their political and moral views; and in order for a boycott strategy to succeed, a large fraction of stakeholders needs to support it.[165] However, the context of the Russian invasion of Ukraine is exceptional, presenting an extraordinary public and bipartisan consensus that determined a strong convergence of interests across stakeholder groups, which is rare given the increased political polarization of our society.[166]

Overall, even if private sanctions can reinforce the effects of governments' economic sanctions, we conclude that companies cannot be relied upon for private sanctioning and consistently aligning with the national geopolitical strategy.

Appendix Table A.1. Net Private Sanctions by Company

Panel A. Withdrawal from Russia (Grade A; 48 companies)

Company	**Industry**	**Exit strategy: operations and statements**	**Drivers (max 3)**	**Brakes (max 3)**	**NET Private Sanctions**
Air Liquide	Materials	720 employees; management buyout	0	2 (G;O)	-2
American Airlines Group	Transportation	agreements with RU airlines	3	0	3
AMETEK	Capital Goods	marketing and sales office	0	0	0
Assicurazioni Generali	Insurance	representative office (80 people); board seats in joint ventures	1 (M)	1 (G)	0
Atos SE	Software & Services	management buyout; critical digital services to global clients out of Russia	2 (E;M)	2 (G;O)	0
Autodesk	Software & Services	23 people office	1 (E)	1 (G)	0
Avery Dennison Corporation	Materials	no operations; serval employees	1 (M)	1 (G)	0
Ball Corporation	Materials	3 manufacturing facilities	0	1 (O)	-1
BASF SE	Materials	684 employees in RU and BY	1 (M)	2 (G;O)	-1
Booking Holdings	Consumer Services	selling travel to and from RU	1 (M)	0	1

164 *Id.* at 30.
165 Hart, Thesmar & Zingales, *supra* note 3, at 26.
166 *See supra* Part IV.B.

BP	Energy	19.75% shareholding in Rosneft	2 (E;B)	1 (G)	1
British American Tobacco	Food Beverage & Tobacco	2500 employees; rapidly transfer RU business in full compliance with international and local laws	2 (B;M)	3	-1
Carlsberg	Food Beverage & Tobacco	8000 employees; it has been important to reach the best possible solution to all stakeholders (regulatory approval necessary)	2 (B;M)	3	-1
Carnival Corporation	Consumer Services	cancel RU travel itineraries	1 (M)	1 (G)	0
Centrica	Utilities	gas supply agreements	0	0	0
Cummins	Capital Goods	700 employees; suspend all commercial operations	1 (B)	0	1
Daimler Truck Holding	Transportation	cooperation with RU truck maker Kamaz; looking into legal options to divest its 15% stake in Kamaz	2 (E;M)	2 (G;R)	0
Delta Air Lines	Transportation	codeshare services with Aeroflot	2 (E;M)	0	2
Deutsche Lufthansa	Transportation	cancel flights in RU airspace	2 (E;M)	1 (G)	1
Deutsche Telekom	Telecommunication Services	software development activities; many employees have taken the opportunity to work outside RU	1 (E)	0	1
eBay	Retailing	services	0	0	0
Elisa	Telecommunication Services	business in RU not essential	1 (E)	0	1
EPAM Systems	Software & Services	9000 employees; sell assets to a third party; relocate employees from RU and BY	2 (E;M)	2 (G;O)	0
Equinor ASA	Energy	4 joint ventures with Rosneft; Kharyaga project; assets valued at $1bn sold for 1 euro to forgo future liabilities	1 (E)	1 (R)	0
Exxon Mobil Corporation	Energy	Rosneft partnership; Exxon properties expropriated by Putin following 7 months of discussions	2 (E;B)	1 (R)	1
FMC Corporation	Materials	one plant; idled and safely closed	0	0	0
Fortinet	Software & Services	ceased operations; continue to support employees in RU	1 (E)	1 (G)	0

Henkel	Household & Personal Products	2500 employees; sale of RU assets to a "consortium of local investors"	2 (B;M)	2 (G;O)	0
Huhtamaki	Materials	4 manufacturing units; 724 employees; sold to Espetina (owned by A.Govor and I.Kushnerov)	1 (M)	1 (R)	0
Imperial Brands	Food Beverage & Tobacco	1000 employees; sold to a local partner	2 (B;M)	2 (G;O)	0
International Paper Company	Materials	50% stake in Ilim group; sold to local partners, led by Ilim chairman Zakhar	1 (M)	0	1
Live Nation Entertainment	Media & Entertainment	halted promoting shows in RU	0	0	0
Mondi	Materials	4500 employees; RU government approval required for the disposal of Syktyvkar plant	1 (M)	3	-2
MSCI	Diversified Financials	Services	1 (E)	0	1
Nasdaq	Diversified Financials	Services	1 (E)	0	1
Netflix	Media & Entertainment	Services	1 (B)	1 (G)	0
Nokia	Technology Hardware	2000 employees; moving the limited R&D activities out of RU	2 (E;M)	2 (G;O)	0
Norwegian Cruise Line Holdings	Consumer Services	cancel RU travel itineraries	1 (M)	1 (G)	0
Omnicom Group	Media & Entertainment	2000 employees; services	1 (M)	0	1
Schneider Electric	Capital Goods	3500 employees; sale to local management	0	1 (O)	-1
Societe Generale	Banks	stake in Rosbank and insurance subsidiaries	3	2 (G;R)	1
Sodexo	Consumer Services	few employees; transferred ownership to local management	1 (M)	0	1
Stanley Black & Decker	Capital Goods	100 employees	0	1 (G)	-1
State Street Corporation	Diversified Financials	services	1 (E)	0	1
United Airlines Holdings	Transportation	cancel flights in RU airspace	2 (E;M)	0	2
United Internet	Telecommunication Services	local contracts	2 (E;M)	0	2
Vodafone Group	Telecommunication Services	partnership with MTS	2 (E;M)	1 (R)	1
WPP	Media & Entertainment	1400 employees; services	1 (M)	0	1
Average for 48 *LEAVE* (A) firms			**1.21**	**0.90**	**0.31**

Panel B. Buying Time and Digging In (Grades D and F; 32 companies)

Company	Industry	Exit strategy: operations and statements	Drivers (max 3)	Brakes (max 3)	NET Private Sanctions
Abbott Laboratories	Health Care Equip & Serv	3500 employees; working in R&D, manufacturing, logistics, etc.	0	3	-3
AbbVie	Pharmaceuticals Biotech	640 employees; responsibility to patients	0	2 (O;R)	-2
Airbus	Capital Goods	"no real mean to act"; comply with sanctions	1 (M)	3	-2
Archer-Daniels-Midland Comp	Food Beverage & Tobacco	50% stake in a joint venture with Aston; ensuring people have access to fundamental nutrition	0	0	0
AstraZeneca	Pharmaceuticals Biotech	250 employees; long legacy of saving and improving lives around the world	0	1 (R)	-1
Bayer	Pharmaceuticals Biotech	150 employees; prevent what could become an unprecedented food crisis	1 (B)	1 (G)	0
Colgate-Palmolive Comp	Household & Personal Products	600 employees; commitment to Colgate people and the communities where they live	0	1 (R)	-1
Davide Campari-Milano	Food Beverage & Tobacco	122 employees, who are suffering because of this crisis	0	1 (G)	-1
ENGIE	Utilities	gas supply contracts; prioritize the security of energy supply to its clients	2 (E;M)	3	-1
GlaxoSmithKline	Pharmaceuticals Biotech	1100 employees; no manufacturing; everyone has the right to access healthcare	0	2 (G;R)	-2
Heineken Holding	Food Beverage & Tobacco	1800 employees; seven breweries	1 (M)	2 (G;O)	-1
Intesa Sanpaolo	Banks	980 employees; 28 branches; reduce exposure gradually over time	2 (E;M)	2 (O;R)	0
Johnson & Johnson	Pharmaceuticals Biotech	25 employees; deliver essential medical products	1 (B)	2 (G;R)	-1
Kimberly-Clark Corporation	Household & Personal Products	200 employees; focused on producing essential items	2 (B;M)	1 (G)	1
Koninklijke Philips	Health Care Equip & Serv	600 employees; uphold their purpose to improve	1 (M)	1 (R)	0

		the health and well-being of people			
Kraft Heinz Company	Food Beverage & Tobacco	1200 employees; sale of its baby food business to local drinks and snacks maker Chernogolovka	1 (M)	2 (O;R)	-1
Medtronic	Health Care Equip & Serv	130 employees; continuing to supply products to save and sustain lives of patients	0	0	0
Merck & Co.	Pharmaceuticals Biotech	220 employees; continue supplying essential medicines and vaccines	1 (B)	2 (G;R)	-1
Mohawk Industries	Consumer Durables	"In RU, our colleagues go to work each day focused on providing for their families"	1 (B)	1 (G)	0
Mondelez International	Food Beverage & Tobacco	3000 employees; "if we suspend our full operations, we would risk turning over … to another party who could use … for their own interests"	2 (B;M)	3	-1
Nestle	Food Beverage & Tobacco	7000 employees; refocused activities on essential and basic foods to local people	1 (B)	3	-2
OMV AG	Energy	gas supply contracts; customers rely on dependable gas supplies including gas from RU	2 (E;M)	3	-1
Procter & Gamble Comp	Household & Personal Products	2500 employees; care items needed by the many RU families	2 (B;M)	2 (O;R)	0
Roche Holding	Pharmaceuticals Biotech	800 sales staff; "there is an international consensus that medicines are exempt from sanctions"	0	1 (R)	-1
Rockwool International	Capital Goods	1200 employees; 4 factories; do not want to punish their own people and put at risk the livelihoods of their families	1 (M)	2 (G;O)	-1
Sanofi	Pharmaceuticals Biotech	1500 employees; "in line with the position of the international community" …continue with the supply of essential medicines and vaccines	0	3	-3
Groupe SEB SA	Consumer Durables	324 employees; a small manufacturing site	1 (M)	0	1
Signify NV	Capital Goods	137 employees; no manufacturing; reviewing	1 (M)	0	1

		implications of the sanctions			
Unilever	Household & Personal Products	3000 employees; continue providing essential food and hygiene products	2 (B;M)	3	-1
IQVIA Holdings	Pharmaceuticals Biotech	4 offices; sanctions likely come at a significant cost to the global economy	0	1 (G)	-1
Raiffeisen Bank International	Banks	$25bn net exposure to RU; continue to operate in compliance with local and international sanction laws	2 (E;M)	3	-1
UniCredit	Banks	$8.1bn exposure to RU; “dump it all” approach would be irrational, overly hasty, and even immoral; “you are dumping it to the very people you’re trying to fight”; “trying to make sure there is an orderly containment”	3	3	0
Average for 32 STAY (D&F) firms			**0.97**	**1.78**	**-0.81**

Note. The table shows company-specific information, including industry classification, descriptions of exit strategies from Russia (including operations and statements), and variables related to private sanctions. The "Drivers" variable represents the sum of three factors: economic sanctions (E), boycott pressure (B), and market pressure (M), with values ranging from 0 to 3. The letters in brackets indicate which factors contribute to this variable. The "Brakes" variable represents the sum of three factors: geographic revenue exposure (G), operational obstacles (O), and regulatory and legal obstacles (R), also ranging from 0 to 3. The letters in brackets indicate which factors contribute to this variable. The "Net private sanctions" variable indicates the difference between the "Drivers" and "Brakes" variables, with values ranging from -3 to +3.

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