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New US sanctions on Russia

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On 2 August, the US Department of State informed that a second round of US sanctions had been imposed on Russia due to the Russian chemical attacks on the Skripal family in Salisbury in the United Kingdom in March 2018.

The sanctions will include:

1. The US government opposing the possible extension of any loan or financial or technical assistance to Russia by international financial institutions, such as the International Monetary Fund or the World Bank (the USA is a member of both of these).

2. Prohibiting US banks (this term covers a broad spectrum of entities, including principally all corporate entities operating on the financial markets, such as brokers, dealers and investment funds) from participating in the primary market for non-ruble denominated Russian sovereign debt (Eurobonds) and lending non-ruble denominated funds to the Russian state (this pertains only to the government, the central bank and government funds but not to state-controlled companies).

3. Imposing a stricter ban on exports to Russia of dual-use chemical and biological items that could be used to manufacture biological or chemical weapons through introducing a 'presumption of denial' policy in the process of granting export licences.

The sanctions will take effect on the day of their publication in the official registry , which is expected to take place around 19 August. They will remain in force for 12 months, though this period can be extended. The sanctions can be lifted on condition that Russia guarantees that: it is not making any preparations for the use of chemical weapons, it will not use chemical weapons in the future, it will agree for these guarantees to be verified by international inspectors and it will pay compensation to the Salisbury chemical attack victims.

The official Russian response to the new sanctions can be described as derisory and dismissive. The spokesperson for the Russian Ministry of Foreign Affairs, Maria Zakharova, pointing to the limited extent of the sanctions, has branded them as mere propaganda. Anton Siluanov, who serves as a deputy prime minister and minister of Finance, has given assurances that they will not have any major impact on the Russian economy. In turn, Sergei Ryabkov, the deputy minister of Foreign Affairs in charge of relations with the USA, has emphasised that the imposition of the sanctions had been motivated by domestic policy issues (elections) and has claimed that the sanctions are the initiative of those who have "turned anti-Russian policy into a domestic policy instrument."

The markets have responded to information on the sanctions with the ruble exchange rate falling temporarily (by around 1%) and prices of Russian debentures dropping (also by around 1%).

Commentary

- The imposition of the second round of US sanctions on Russia over the Russian chemical attack in the United Kingdom has been long awaited and has been a topic of internal political debate in the USA. The first round of US sanctions was imposed in August 2018 and covered a ban on exports of any technologies (mainly advanced) from the USA to Russia which are linked to national security. Another round of sanctions was expected – pursuant to the US Chemical and Biological Weapons Control and Warfare Elimination Act of 1991 (CBW Act) – within three months (i.e. in November 2018). However, the Trump Administration was delaying a decision concerning this issue, referring to a different interpretation of the act, which provoked criticism from a number of members of Congress (especially those from the Democratic Party).
- The scope of the new sanctions is very limited. The White House has not used the extensive prerogatives vested in it under the CBW Act which allowed it to impose measures such as: an almost a total ban on exports and imports, discontinuing diplomatic relations, or halting air traffic.
- The announced sanctions will have a limited impact on the Russian economy. Firstly, Russia has not sought financial and technical support from international financial institutions (in particular, the IMF) for a long time, and the implementation of the World Bank's new projects in Russia was withheld in 2014 as part of retaliation for the Russian annexation of Crimea. Furthermore, Russia does not need support of this kind in the present economic situation. The Russian Treasury (unlike Russian firms) benefits from foreign financial support to a limited extent, including through the placement of Eurobonds. Russian residents' total debt with US banks is around US$11 billion. However, Russian treasury bonds that have been bought by US holders are worth only around US$3.5 billion (so around 8–10%). Moreover, according to the US media, the US warned Russia of its intention to impose sanctions of this kind already in February this year, which made Russia inclined to successfully sell Eurobonds on the primary market for a total price of US$5.5 billion and EUR750 million in March and June (the level of loans on foreign markets was almost double the limit planned in the budget for 2019). They were bought primarily with European and Russian capital.
- The sanctions may indirectly adversely affect Russia's credit rating and discourage entities from other countries from buying Russian debentures. However, the restricted possibilities of the Russian Ministry of Finance to issue bonds abroad will not have any major impact because the Russian government primarily takes loans on the domestic market. It also needs to be noted that the restrictions imposed on US entities do not affect buying Russian securities on the secondary market.
- The ban on exports of dual-use items to Russia has already been in place on the grounds of separate US sanctions regulations, and the new restrictions do not make any major

change.

- The imposition of these limited US sanctions on Russia needs to be viewed primarily in the US domestic political context. This move can be seen as a desire to draw the sting out of the accusations that the Trump Administration has been taking too mild a stance on Russia's aggressive policy, which is an important element of the campaign ahead of the presidential election due to be held in the USA in November 2020. .
- This decision of the US government does not seem to have any major impact on Russian-US relations, especially if it is true that the Russian side was warned about it well in advance. Furthermore, President Trump called President Putin on 31 July in the evening, offering, amongst other things, assistance in extinguishing the forest fires in Siberia. The official response from the Kremlin to this proposal is very positive. It states, for example, that President Putin sees Trump's offer "as a guarantee that in the future it will be possible to restore full-scale relations" between Russia and the USA. It may be assumed that Trump at the same time warned the Russian president of the intention to sign the decree imposing the new sanctions. The fact that Moscow has calmly accepted the new sanctions is proven by its moderate official comments suggesting that Trump himself is not to blame for their imposition.
- On the one hand, the Kremlin still hopes that Trump will be interested in normalising relations with Russia (without the need for Russia to make any major concessions). Yet on the other, Moscow is aware of the fact that, considering the election campaign in the USA, no serious positive gestures towards Russia should be expected from the Trump Administration before November2020.

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