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New US sanctions against Russia

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On April 15, 2021, US President Joe Biden decided to impose new political and economic sanctions on Russia in response to Moscow's aggressive actions against the US, its allies and partners, including attempts to interfere in the US election campaign and hacking attacks on state and private institutions both in the US and in other countries (the SolarWinds case). Thus, after three months of holding office, he has partially fulfilled his electoral promises. At a special meeting with the press on the evening of April 15, Biden briefly laid out the principles of his strategy in relations with Russia. The strategy combines tough and decisive responses to possible actions against American interests with a readiness for dialogue and cooperation on issues such as arms controls, slowing down the nuclear programmes of North Korea and Iran, tackling pandemics, and climate policy. The new administration wants to "manage" existing tensions with Russia to avoid their escalation and to establish a "stable and predictable relationship".

Most of the sanctions were introduced by a new presidential Executive Order, which was signed on April 15. They affected several categories of entities (for more details see the Appendix).

Firstly, as part of the economic sanctions, Washington decided to introduce further restrictions (extending those introduced in 2019) on Russian sovereign debt. US financial institutions were prohibited from participating in the primary market for ruble or non-ruble denominated bonds issued after June 14, 2021 by the Central Bank of the Russian Federation, the National Wealth Fund of the Russian Federation, or the Ministry of Finance of the Russian Federation They are also prohibited from lending ruble or non-ruble denominated funds to these three entities.

Secondly, six Russian companies operating in the technology sector were sanctioned for supporting Russian Intelligence Services cyberattacks, including a hacking attack on the servers of SolarWinds (a company that offers cyber security solutions to the US administration and others). Among them is Positive Technologies – one of the country's largest companies in terms of revenue generated online.

Thirdly, another 16 entities and 16 individuals were designated for trying to influence the 2020 presidential election. Most of them are connected to the Russian Intelligence Service and networks used in information warfare (including spreading disinformation and hacking attacks) developed by Yevgeny Prigozhin, a businessman carrying out tasks assigned by the Kremlin and the secret service. Some of them (five individuals and six companies) are Pakistani entities providing services to his network.

Fourthly, the US, in consultation with other western partners (the EU, Canada, the UK, and Australia), designated five individuals and three entities related to Russia’s occupation of Crimea. The list includes three entities related to the construction of a bridge across the Kerch Strait, Detention Facility No. 1 in Simferopol (for human rights violations), and five representatives of the internationally unrecognised authorities of the occupied Crimea.

Under US law, inclusion on sanctions lists means the property of the designated persons accumulated in the US or in the possession of US persons are blocked. In addition, US entities are prohibited from any transactions with individuals and legal entities on these lists. Similar restrictions also apply to owners of 50% or more of the shares of sanctioned companies. In addition, in the case of any entities that are owned, directly or indirectly, to the level of 50% or more by one or more blocked persons, these entities are also blocked.

Fifthly, the US expelled ten Russian secret service officers working under diplomatic cover in Washington and providing support in the implementation of the hacking attack on SolarWinds.

The above actions were partly offset by earlier positive gestures by the White House towards the Kremlin. On April 13 President Joe Biden telephoned Vladimir Putin and told him to de-escalate the growing tension caused by the ostentatious concentration of Russian armed forces on the border with Ukraine, the increased frequency of ceasefire violations in Donbass, and the Russian media campaign suggesting that the Russian armed forces might attack Ukraine. However, Biden personally reiterated his previously extended invitation to Putin to attend a virtual climate summit organised by Washington in late April, and proposed that the two leaders meet on neutral ground in Europe in the summer. At the same time, the US withdrew notification of the entry of two of its warships (missile frigates) into the Black Sea, the announcement of which had been harshly criticised in Moscow.

On the day the sanctions were announced, the American Ambassador to Russia, John J. Sullivan was summoned to the Russian Foreign Ministry. Russian Deputy Foreign Minister Sergey Ryabkov warned him that Russia would take a "series" of retaliatory steps. In addition, he pointed to the contradiction between the introduction of sanctions by the US and its declared desire to avoid an escalation of tensions. According to the Russian diplomat, the US behaviour stood in contrast with that of Moscow which has always "demonstrated an extremely responsible approach" to relations with Washington. On April 16, Sergey Naryshkin, the Director of the Foreign Intelligence Service and a member of President Putin's closest circle, described the sanctioning of the service and its officers as a sign of "unfair competition" on the part of the US. According to him, such hacking actions for which the Americans have imposed sanctions are part of routine activities within the framework of "competition between the world's leading intelligence services”.

Even before the sanctions were announced, Russian presidential spokesman Dmitry Peskov, in response to the US offer of dialogue, stressed that the Russian side has yet to consider the utility of a Putin–Biden meeting, and announced that the stated desire of the US administration to normalise relations (which would the objective of the summit meeting) needs to be confirmed by its actions, and that the new restrictions "would not be conducive" to a meeting, although they would not preclude it ("it will be the president's decision"). Peskov, commenting on America’s reversal of its decision to send warships into the Black Sea, said that this would not lower tensions due to the increase of US and NATO military potential in Central Europe.

The first reactions of the Russian market to the introduction of American sanctions were moderate. Investors had been expecting them since March 18, i.e. since President Biden's interview in which he called Putin a murderer. Since then, the Russian currency has lost more than 5% against the dollar, which is currently worth 77 rubles. The profitability of Russian sovereign debt is also on the increase and is currently the same as it was before the pandemic – around 7% (with the CBR base rate at 6% a year ago and 4.5% now).

Commentary

- The financial and economic sanctions introduced by Washington have proved to be more tame than those which the Kremlin had been preparing for. In a speech on April 15, President Biden admitted that the US had much more severe instruments at its disposal, but had decided not to use them for the time being. Russia even considered the possibility of disconnecting itself from the SWIFT system of international financial settlements (Foreign Minister Lavrov's statement of April 13). The Kremlin has been trying to safeguard itself against such a scenario for several years now. In recent years, the central bank has systematically reduced the role of the US dollar in the structure of International reserves (by mid-2020, its share had dropped to 22% from about 45% in 2018), and the share of other currencies in Russia's foreign trade is growing. In addition, the Kremlin is trying to develop its own alternative system of international settlements.
- The ad hoc financial and economic sanctions currently being implemented by the United States are unlikely to prove too harsh for Russia. Restrictions on sovereign debt apply only to the primary market – US entities will still be able to buy Russian bonds on the secondary market. Donald Trump's administration had introduced similar restrictions back in 2019, but then they applied only to Eurobonds (non-ruble) issued by the finance ministry. It should also be noted that the amount of Russian sovereign debt remains at a safe level below 20% of GDP. The value of issued government bonds is about $180 billion, of which only 20% is held by non-residents, mostly American entities. Non-residents, fearing an expansion of restrictions, have already backed away from them. Last year, when the Russian government was actively incurring debts itself, almost 80% of the bonds were bought up by Russian state banks.
- However, the introduction of further US sanctions and the threat of their further extension pose a serious challenge to the Russian economy in the long-term perspective. The existing restrictions have significantly increased the cost of conducting business in the country, slowed down the development of the economy, and above all, reduced the possibility of it growing dynamically in the long term due to limited access to technology and investments. As a result, Russian economy is becoming increasingly inefficient and autarchic. On the other hand, the sanctions have not significantly affected its stability up to this point. Russia has gradually adapted to successive restrictions, including by developing mechanisms for circumventing them using local entities and reducing the transparency of financial operations. In addition, one important factor in overcoming the negative consequences of sanctions was the relatively high income from exports of natural resources (mainly oil), which allowed Russia to build up financial safeguards. The Russian international reserves have grown to about $580 billion, and the National Wealth

Fund has accumulated over $180 billion in reserves. Therefore, to date the fluctuation of oil prices has been a far greater challenge to the Kremlin than sanctions, as were the consequences of the pandemic last year.

- The US restrictions on Russian entities and individuals will also exert a limited impact. This is because they mostly affect the less significant performers of the Kremlin's aggressive actions. The names of some of them (including First Deputy Chief of Staff of the Presidential Administration of Russia Alexey Gromov, and Alexander Malkevich, who is linked to Prigozhin's network) have already been included on the US lists on the basis of other charges, so their situation will not change significantly. The sanctions will also have no impact on reducing the aggressive operations of the Russian secret service.
- On the one hand, the introduced restrictions are a political demonstration of the will and readiness of the US to respond decisively to aggressive actions conducted by Russia. On the other, their limited character is a kind of invitation to enter into dialogue and to abandon a further escalation of tensions, which, however, may be interpreted in Moscow as fear of escalation.
- It is difficult to predict how Russia will react to the ambiguous attitude of the US. On the one hand, in the face of new sanctions (however mild), it will be difficult for Putin to accept Biden's invitation to meet, especially since the Kremlin had earlier publicly made it clear that the decision on this issue depends on US sanctions. So commentators close to the Russian political establishment (such as Fyodor Lukyanov) suggested that the Russians should not agree to the summit meeting because it is unlikely to lead to a change in US policy (which Moscow burdens with the sole responsibility for the crisis in the relationship) or to an improvement in mutual relations. On the other hand, the Kremlin has traditionally been interested in such meetings because they confirm Russia's status as an equal partner/competitor of the US, which is a key element of the government's political legitimacy in domestic politics. At present, this is particularly needed considering the regime's growing difficulties, stemming both from economic problems and the public's growing fatigue with more than 20 years of rule by Putin's team. Undoubtedly, Moscow, seeing Washington's willingness to engage in dialogue, will try to hide its interest in pursuing it to obtain the greatest concessions. Therefore, it should be expected that it will respond to sanctions in a moderate manner and not break off talks with the US.

APPENDIX. Russian entities subject to the US sanctions (15 April 2021)
(the list excludes natural and legal persons from Pakistan)

I. Sanctions for supporting Russian cyberattacks on the US, including the SolarWinds hacking attack

ERA Technopolis (Federal State Independent Military Unit) – research centre and technology park of the Russian Ministry of Defence; supported the GU in cyberattacks

Pasit, AO a joint stock company – an IT company that supports the Foreign Intelligence Service of the Russian Federation (SVR RF)

Federal State Autonomous Scientific Establishment Scientific Research Institute Specialized Security Computing Devices and Automation (SVA) – a research institute specialising in advanced IT security systems; collaborates with SVR

Neobit, OOO – a St. Petersburg-based IT company specialising in IT security, provides services to the Ministry of Defence of the Russian Federation, FSB, and SVR; has supported cyberattacks organised by the FSB, GU, and SVR (covered by previous sanctions)

Advanced System Technology, AO (AST), joint stock company – an IT company specialising in information technology security, provides services to the Russian Ministry of Defence, FSB and SVR; has supported cyberattacks organised by the FSB, GU and SVR (covered by previous sanctions)

Pozitiv Teknolodzhiz, AO – an IT company specialising in IT security; its clients include state bodies such as the FSB; it also cooperates extensively with international customers; it has supported the activities of the FSB and GU (covered by previous sanctions)

II. Sanctions for attempts to influence US elections

Entities:

SouthFront – information warfare entity, *ru.southfront.org*

NewsFront – (news agency, information warfare entity, *news-front.info*

Strategic Culture Foundation (SCF) – information warfare entity, *www.strategic-culture.org*, *www.fondsk.ru*

InfoRos (news agency run by the GRU's 72nd Main Intelligence Information Center) operates under two organisations: InfoRos, OOO and IA InfoRos – information warfare entity, *inforos.ru*

Foundation for National Values Protection (FZNC) – information warfare entity, *fznc.world*

Association for Free Research and International Cooperation (AFRIC) – information warfare entity, tool of Russian interference in African elections, linked to Prigozhin

International Anticrisis Center– information warfare entity, a tool of Russia's interference in African elections, linked to Prigozhin

Trans Logistic, LLC – a company involved in the transport of suspect goods, linked to Prigozhin

OOO Yunidzhet – company engaged in the procedure of transporting suspicious persons and goods, linked to Prigozhin.

Alkon, OOO – linked to Prigozhin

Individuals:

Yulia Andreevna Afanasyeva, lobbyist

Petr Byschkov, "political technologist" (political operative), associate of AFRIC

Alexei Alexeyevich Gromov, First Deputy Chief of Staff of the Presidential Administration of Russia, probably served in SVR (he was already on the sanctions lists)

Konstantin Viktorovich Kilimnik, GU (military intelligence) officer

Alexander Malkevich, first deputy chairman of the Civic Chamber of the Russian Federation for the development of the information society and the media, general director of "St. Petersburg" television (he was already on the sanctions lists)

Taras Pribyshin, full-time collaborator of AFRIC

Kirill Konstantinovich Shcherbakov, owner of Yunidzhet and Alkon, associate of Yevgeny Prigozhin

Artem Stepanov, Deputy Director General of OOO Yunidzhet, associate of Prigozhin

Denis Valeryevich Tyurin, Head of InfoRos Agency

Maria Zueva, Director General of Yunidzhet

III. Sanctions for Russia's occupation of Crimea

Entities:

Joint-Stock Company The Berkakit-Tommot-Yakutsk Railway Line's Construction Directorate – involved in the construction of a bridge over the Kerch Strait

Lenpromtransproyekt – design office involved in the construction of the Kerch Strait Bridge

Simferopol SIZO-1 (Detention Facility No. 1) – for human rights violations

Individuals:

Leonid Kronidovich Ryzhenkin – President of Mostotrest company involved in investment projects in Crimea

Pavel Leonidovich Karanda – Minister of Internal Affairs of the unrecognised Republic of Crimea

Leonid Mikhailuk – head of the FSB for the unrecognised Republic of Crimea and Sevastopol

Larisa Vitalievna Kulinich – Minister of the Treasury of the unrecognised Republic of Crimea

Vladimir Nikolaevich Terentiev – Head of the Investigative Committee of the Russian Federation for the unrecognised Republic of Crimea and Sevastopol