

Massive indirect sanctions are hitting Russia

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On 3 March, **Washington expanded its specially designated national list to include another 92 individuals and companies & objects** (including one yacht and two planes), which resulted in their assets in the US being frozen, and prohibited any American entities from carrying out any transactions with them. The individuals included: **Dmitri Peskov**, the Kremlin's press secretary; **Nikolai Tokarev**, president of the state-owned Transneft', and his family members; **Igor Shuvalov**, president of the state investment corporation VEB, and his family members; **Alisher Usmanov**, one of Russia's richest businessmen; members of **the Rotenberg brothers' families** (businessmen from Vladimir Putin's closest circle) and **Sergei Chemezov's** (head of the Rostech state defence corporation) family. The lists also include **entities responsible for disseminating Kremlin propaganda** and spreading disinformation, including the Strategic Cultural Foundation (linked to the secret services) and its employees, and the United World International organisation (linked to Yevgeni Prigozhyn, creator of pro-Kremlin networks and the so-called Wagner group) and its employees. The list of legal entities mainly includes enterprises from the armaments sector, above all from the aviation industry, including the Public Joint-Stock company Kuznetsov from Samara (engine manufacturer), the Saturn United Engine Production Corporation from Rybinsk; and the Nizhniy Novgorod Sokol Aircraft Manufacturing plant (for more see [Russia-related Designations; Issuance of Russia-related General License](#)).

On 3 March, **the United Kingdom blocked access** (direct and indirect) **to its insurance market for the Russian aviation and space sectors**. The United Kingdom is the world leader in this segment of the financial market (for more see [UK to bring in further sanctions targeting provision of insurance](#)).

Canada has stripped Russia and Belarus of their MFN clauses in trade: as a result, the average customs tariff will increase to 35%.

The European Union has adopted a wait-and-see attitude. Although it is preparing an extension of the sanctions package, first it intends to analyse the effects of the restrictions already introduced against Russia before introducing it. At the same time, the EU is working on a programme for protection against the side effects of sanctions on the member states' economies.

The scale of indirect sanctions against Russia is expanding, as Western businesses introduce and expand their measures. One of the largest **cryptocurrency exchanges, Binance**, has announced that it will not accept cards issued by Russian banks subject to sanctions or belonging to the legal and individual entities on the sanction lists.

Although there is still no confirmation of the reports that Nord Stream 2 AG has begun bankruptcy proceedings, there is more and more evidence that the project is doomed. Another company has *de facto* withdrawn from supporting it; representatives of Wintershall Dea have stated that they are writing off around US\$1.1 billion of their investment support, which they had granted in the form of loans to Nord Stream 2 AG. In addition, on 3 March, speculation appeared in the media that the German company Gas for Europe (G4E), which was to have been the operator and owner of the German section of Nord Stream 2, will dissolve. In addition, in the evening of 3 March German Chancellor Olaf Scholz announced that “it was high time to stop Nord Stream 2”.

The three biggest **Hollywood film studios**, Warner Bros., the Walt Disney Company and Sony Pictures Entertainment, have decided to withdraw screenings of their films in Russia. These producers’ films accounted for around 80% of the Russian cinema industry’s revenues. Two of the largest retail chains, **IKEA** and **Jysk**, have decided to close their stores in Russia. The British **company OneWeb**, which was introducing a broadband satellite internet project (competing with Elon Musk’s Starlink), has suspended the launch of more Sputniks from the Baikonur cosmodrome in Kazakhstan, which Russia leases. The **VW Group**, which makes Škoda and Volkswagen cars, has suspended production in Russia. It has also announced plans to suspend the export of parts, components and cars to the Russian Federation; Japan’s **Toyota** also made the same decision. This is one of the most popular brands in Russia – it produces around 80,000 vehicles annually at its plants in St. Petersburg, which employ 2000 people. Due to a shortage of components **AvtoVAZ**, the largest Russian car manufacturer, which makes the Lada brand, has also been forced to suspend production.

The implementation of the restrictions already introduced has led the Russian airline S7 to suspend all its flights abroad with Airbus planes, after one of the leased aircraft was seized at the airport in Yerevan, as Airbus has terminated its leasing contracts with Russia. **The volume of frozen assets in Europe is growing**, including villas, yachts and cars. The French government has estimated that their list to date includes assets belonging to 510 people subject to sanctions. So far, it has seized four cargo ships and a yacht; the latter, probably owned by Igor Sechin (president of Rosneft), was trying to leave a French port. Some Russian oligarchs, however, have managed to move their boats out of European jurisdiction. Five of them, including craft belonging to Oleg Deripaska and Vladimir Potanin, are currently in the territorial waters of the Maldives.

European banks are counting their losses related to the sanctions imposed on Russia. Some of them had invested substantially in that country. The French bank Société Générale’s credit exposure in Russia is estimated at \$20 billion, and it is one of the largest foreign institutions there; it earns nearly 3% of its profit in Russia. Norway’s US\$1.3 trillion wealth fund has announced it will withdraw from investing in Russia. At the end of 2021, the fund’s Russian assets were worth around US\$3 billion, which have now become worthless. The American investment bank Citigroup has also estimated its losses at several trillion dollars; the bank’s exposure to this market was estimated at US\$10 billion.

Moreover, European financial market regulators are preparing for the **possible closure of the European subsidiaries of** Russia’s second largest bank **VTB**, as the consequences of the sanctions imposed on this bank are becoming increasingly clear. Sberbank Europe, subjected to US sanctions, has been unable to deal with the outflow of deposits, and its

Austrian company has already gone bankrupt.

The number of representatives of Russian businesses calling for peace in Ukraine is growing. Lukoil, the second largest (private) oil company in Russia, has published an appeal for peace on its website, and expressed its support for resolving the conflict with Ukraine by diplomatic means. As in other cases, however, it neither named the aggressor nor condemned its actions. The oligarch Oleg Deripaska posted another entry on his Telegram channel on the consequences of the sanctions for Russia. In his opinion, the current economic crisis will be much deeper than the one which Russia experienced in 1998. He called the attempt to prolong the talks madness. He recalled that Ukraine has long been a nuclear power; apart from the closed nuclear power plant in Chernobyl, there are also 15 nuclear power units and 3 spent fuel storage facilities on its territory. If these are damaged, the disaster will affect the European part of Russia, Ukraine and Europe.

During the day on 3 March, the **US dollar's exchange rate** against the rouble rose to 116 roubles, falling to 110 roubles by the end of the day. In the morning of 4 March it stood at around 105 roubles. Oil prices are rising: on 3 March, **Brent crude** was trading at \$119 a barrel in futures contracts, the highest price level since February 2013. **Gas prices in Europe** also remain high; on 3 March, they exceeded US\$2200 per 1000 m³ at certain times of the day on the European stock exchanges.

The Kremlin has developed further measures for retaliation against the West. On 4 March, the State Duma adopted a law allowing for the introduction of sanctions against foreigners and stateless persons who violate the rights of Russian people. In fact, these are amendments to the Act of 2012 (known as the 'Dima Yakovlev Act') which was directed against the US (as a response to the so-called Magnitsky Act); among other provisions, it forbade Russian political NGOs from accepting US subsidies or recruiting US citizens to fill their leadership positions. The amendments currently being voted on allow for the following measures to be taken against foreigners deemed to be acting against Russian interests: an entry ban, the seizure of their assets in Russia, bans on investing or carrying out transactions with Russian entities; the suspension of the activities of foreign companies controlled by such persons, and the suspension of their powers on the boards and bodies of Russian companies.

The Russian authorities are trying to counteract the negative consequences of the sanctions. From 4 March, the Central Bank of Russia (CBR) reduced the commission for individuals from 30% to 12% on foreign currency purchases (this step turned out to be too radical, and escalated public tensions); a similar commission also applies to entities. The authorities are primarily trying to maintain social stability, as prices, especially those of food and medicine, have started to rise significantly. As a result, the Federal Anti-Monopoly Service has limited the markups on the price of bread to 5% for the largest grocery chains in Russia. In the Far East, in response to the mass buying-up of goods, limits on their sale (e.g. 20 kg of sugar) have been introduced.

A draft law on supporting citizens and business under sanctions has been submitted to the State Duma. However, it does not contain any new solutions. This document defines the methods for regulating the prices of medicines, extends the period in which businesses can take advantage of concessionary loans, and limits the supervision of small and medium-sized businesses by Russian state bodies. The draft also defines the rules by which joint-

stock companies can buy out their own shares, which the government announced a few days ago.

Commentary

- The consequences of these indirect sanctions for the Russian economy are growing. These are as important as the restrictions officially introduced by the West. Maintaining relations with Russia has become toxic for Western companies; as a result, they are breaking off their cooperation with it in order to protect their reputations. The enormous scale of this process is increasing the losses being incurred by the Russian market.
- The initiative in the fight against the consequences of the sanctions has been completely taken over by the CBR, which has reacted decisively to the situation and is acting in accordance with its initial plans. Its main goals are to combat inflation and maintain the country's foreign exchange reserves. The attitude of the CBR contrasts with the passivity of the Russian government which, in line with bureaucratic logic, started by setting up a commission to combat the effects of the sanctions. It is headed by Prime Minister Mikhail Mishustin; its deputies are the deputy prime minister for economic affairs Andrei Belousov and Moscow's mayor Sergei Sobyanin.
- The Russian government is primarily trying to limit the effects of the sanctions on the poorest in society, who are Vladimir Putin's main electorate. As a result, it has tried to reduce the growth of basic foodstuff prices by means of market regulation. In Russia there is a basket of goods of social importance (buckwheat, bread, oil, etc.), which are under strict state control. However, regulating the market means *de facto* shifting the costs onto business, which is still suffering serious consequences from the current crisis. Currently, the prices for all goods and services in Russia are rising, which could lead to the bankruptcy of a significant number of businesses. The government has so far not offered any specific support mechanisms for enterprises to maintain their production and jobs. Customers are already starting to save their money, and as a result, the crisis is affecting the service sector the fastest (e. g. restaurants, cinemas, beauty salons).
- Moscow's response to the West, which is based on seizing Russian assets belonging to persons acting against Russia's interests, has *de facto* sanctioned the present situation. A significant part of the Western legal and natural persons affected, who were aware of the losses they were about to suffer, have already left Russia and suspended cooperation with it. Western assets in Russia, especially those which will no longer receive any imported goods, parts, components or technology, have become worthless.