

## The fifth sanctions package: a ban on coal imports, partial closure of ports

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On 5 April, the President of the European Commission Ursula von der Leyen presented the principles of the European Union's proposed fifth package of sanctions against Russia (see [Press statement by President von der Leyen on the fifth round of sanctions against Russia](#)).

The new restrictions are to cover six elements:

1. a ban on coal imports from Russia (the EU estimates its value at \$4 billion a year);
2. a complete ban on transactions with four banks, including VTB (according to the EC's calculations, the restrictions will affect institutions with a total 23% stake in Russia's banking sector);
3. a ban on Russian ships accessing EU ports, excluding certain categories of supplies (agricultural products, food, humanitarian aid and energy resources), and a ban on access to the EU market for road carriers from Russia and Belarus;
4. a ban on exports from the EU to Russia of selected categories of products, notably technology, including semiconductors and quantum computers (the total value of exports to be sanctioned is around €10 billion per year)
5. a ban on importing selected goods from Russia, including wood, cement, seafood and alcohol (the EC estimates the total value of these goods at €5.5 billion annually)
6. a ban on Russian companies' access to public contracts in the member states, and the exclusion of any financial support (from EU or member state funds) to Russian public entities.

The EC's communication also states that the Union intends to work on further restrictions including crude oil (the discussions include the imposition of an import tax). A decision on sanctions is due on 6 April.

The EU's High Representative for Foreign Affairs and Security Policy Josep Borrell announced that 19 Russian citizens working at Russia's permanent representation to the EU will be declared *personae non gratae*.

New sanctions have also been announced by Washington. These will include a ban on authorising Moscow to settle payment claims on its sovereign debt through bank accounts held by Russian state institutions in US banks. The Wall Street Journal reports that the US plans to extend restrictions to a large group of banks, including Sberbank. In addition, the

new restrictions are expected to ban US entities from any new investments in Russia and extend personal sanctions targeting members of Russia's political & business elite and state institutions.

On 5 April, Canada expanded its list of Russians subject to individual sanctions. The list includes important oligarchs with close links to the Kremlin such as Vladimir Potanin, Viktor Vekselberg, Kirill Shamalov and Leonid Mikhelson (see [Regulations Amending the Special Economic Measures \(Russia\) Regulations](#)).

Also on 5 April, other countries announced their decision to expel Russian diplomats, including Italy (30 people), Spain (25), Denmark (15), Slovenia (15), Estonia (14), Latvia (13) and Sweden (3). In total, some 340 Russian diplomats have been expelled from EU countries since the invasion of Ukraine began on 24 February.

More companies are withdrawing from Russia. On 5 April Intel, the world's largest producer of integrated circuits, announced it was suspending its activities on this market. The day before, Airbnb suspended its services in Russia and Belarus; the restrictions also include preventing citizens of both countries from using its facilities abroad.

On 5 April, Vladimir Putin chaired a meeting on the situation in the agro-industrial sector. The president instructed the government to set aside no less than 153 billion roubles from the federal budget to support enterprises operating in this segment. During the meeting Putin also referred to the actions taken by the German government in relation to Gazprom Germania GmbH (on 4 April Berlin announced that the entity, which until 31 March was 100% controlled by Gazprom, had been taken into trust). He stated that Western countries were trying to apply administrative pressure on the company. He also warned that the idea of nationalising Russian assets in European countries could prove to be a "double-edged sword".

Stocks on the Moscow exchange have plummeted. On 5 April, the IMOEX rouble index stood at 2662.8 points at the close of the session (the day before it had ended at 2787.7). The decline continued on the morning of 6 April (falling 2% to 2602 points). In turn, the RTS dollar index fell to 1004.8 points (the day before it had closed at almost 1052 points), and on the morning of 6 April it sank to 980 points (by 2.4%).

The Russian rouble's exchange rate on the domestic market once again strengthened slightly. On 5 April, at close on the Moscow exchange, \$1 cost 83.3 roubles (compared to 84 the day before), and 83.5 roubles in the morning of 6 April. On 5 April, oil prices fell slightly; at the end of the day, Brent crude in June contracts cost \$106.6 per barrel (compared to \$107.5 on 4 April). Gas prices on European exchanges also fell slightly. On 5 April, they closed below \$1200 per 1000 m<sup>3</sup>. For comparison, on 4 April, gas on the TTF hub cost around \$1300 per 1000 m<sup>3</sup> at the end of the session.

## Commentary

- Although the proposals for new sanctions announced by the EC affect important and sensitive sectors, their detailed material scope does not indicate that they would have any critical effect on the Russian economy at this stage. The embargo on coal imports is an important political signal that for the first time, Brussels has decided to impose restrictions on the purchase of Russian energy resources, thus responding to growing

pressure from individual member states on this issue. On the other hand, the share of coal in trade between the EU and Russia is relatively low (about 1.6% in value), as is the share of Russian raw material exports to the EU (about 4% in value). Moreover, the value of Russian coal exports to the Union (€4 billion) is incomparably less than the funds Moscow receives from the sale of oil, oil products and gas. Indeed, in 2021, the total value of oil and gas exports from Russia amounted to almost \$243 billion (74% of which goes to oil & oil products, of which the EU accounted for \$108 billion), and this year it could be as high as \$321 billion.

- The sanctions, which include a ban on Russian ships accessing EU ports, will increase logistical problems for Russian exporters. However, the exemptions proposed in the EC's communiqué (covering oil supplies by sea, which are crucial for Moscow) will seriously weaken their nature: the restrictions will cover no more than 30% of the value of Russian supplies to the EU via this route.
- The Commission has also announced the introduction of a ban on access to the EU market for road carriers from Russia and Belarus (which are responsible for around half of the freight transport between the EU and these countries). However, it is unclear whether this will be a total ban or whether (as in the case of ships) exceptions will be allowed. The tightening of sanctions against the Russian banking sector is also a positive sign, but their severity is weakened by the omission of such important institutions as Gazprombank and Sberbank.
- The new US sanctions tightening the previously imposed financial restrictions may generate serious problems for Russia in terms of servicing its dollar-denominated foreign debt. When they come into force, it will make it impossible for Russia to repay its debts with its dollar reserves in foreign bank accounts. Thus, the Russian government will have to use funds held in domestic banks, or declare insolvency, in order to pay in dollars. The full impact of the new restrictions can only be assessed after the content of the US decision is published, which is likely to be on 6 April.
- Putin's reaction to Germany's actions in the case of Gazprom Germania GmbH indicates that Moscow may take similar steps with regard to selected German assets in Russia. It is possible that Russia may respond to Berlin's moves with a reduction or suspension of gas supplies, which could be triggered if the European partners, including Germany, refuse to comply with the new rules for paying for Russian supplies. Although the mechanism provided for in the decree modifies the situation of Russian gas customers only slightly, it is still unclear whether they will decide to accept the changes, in particular by opening rouble accounts at Gazprombank.

At the same time, the suspension or reduction of gas supplies by Russia still seems a less likely scenario, since despite the invasion of Ukraine, Gazprom has continued to meet all of its contractual obligations to importers and to Ukraine as a transit country.