

## The United States steps up its sanctions against Russia

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On 2 November 2023, the Office of Foreign Assets Control (OFAC) of the US Department of the Treasury has added another 37 individuals and 200 companies to the Specially Designated Nationals list, mainly from Russia but also from the United Arab Emirates, Turkey and China. Earlier, on 6 October, the US Department of Commerce introduced a ban on cooperation with a further 50 companies (and other businesses which they control) due to their support for the Russian armaments sector.

The restrictions have been introduced in three areas: energy, armaments and finance. As regards energy, the Arctic LNG 2 LLC company and its subsidiaries have been targeted. This company has been managing the Arctic LNG 2 project, launched by the Russian Novatek company, which involves the construction of three gas liquefaction lines with a total production capacity of around 20 mn tonnes annually. The first such line is expected to be put into operation by the end of this year. This liquefaction facility is located in northern Russia, on the Gydan Peninsula, and foreign partners (French, Japanese and Chinese capital) are involved in the investment. As regards the armaments sector, sanctions have been imposed both on companies which supply their products to the Russian Federation and on logistics & trade agents which act as intermediaries in delivering these supplies. This includes companies from the Persian Gulf countries, China and Turkey. In the finance sector, the restrictions have targeted selected Russian banks, the Russian Post, as well as the AFK Sistema investment holding and the Saint Petersburg Stock Exchange (which trades foreign equity securities).

### Commentary

- The new sanctions have proved painful to the majority of the companies targeted. The foreign partners of Arctic LNG 2, that is the French TotalEnergies company and a Japanese consortium made up of the Mitsui and Jorgmec companies, have announced their intention to evaluate the restrictions and to take measures in response to them, without providing any further details. The Saint Petersburg Stock Exchange has halted its trade in foreign equity securities to gain some time to devise procedures which will enable it to continue its operation. Investors have reacted negatively to this forced pause, which resulted in a drop in the indices of both the Saint Petersburg and Moscow stock exchanges. The OFAC's decision has also demonstrated that despite Russia's attempts to counteract the restrictions, the West still has tools to influence the Russian economy. At the same time, it has undermined the Russian propaganda message that Russia has adapted to the West's sanction regime.

- The decision to extend the restrictions to numerous companies incorporated in countries which are Russia's major partners, such as China, the UAE and Turkey, is a clear warning to those businesses which have been helping Russia to circumvent the sanctions. It is also linked with the OFAC's October 2023 decision to punish two companies (one from Turkey and the other from the UAE) for their involvement in the transport of Russian oil in violation of the so-called price cap, that is oil which Russia had sold at a price exceeding the imposed price limit of \$60 per barrel. This is how the United States is demonstrating its readiness to enforce the sanction regime, by forcing Russia's partners to establish new logistical routes to carry out their export and import operations, which in turn raises the cost of these transactions.
- The decision to impose restrictions on the company which manages the Arctic LNG 2 project is an unprecedented move, as this is the first time when a specific LNG exporting facility has been targeted. The sanctions have hit Russia's potential for increasing its LNG exports, which was partly offsetting the decrease in Russian gas exports via gas pipelines (see '[Novatek offers Gazprom more and more competition on the EU market](#)'). By imposing these restrictions, the US intends to reduce the scale of its future competition, in particular on the European market, where American gas competes with Russian-supplied LNG (which has so far been exempt from the EU embargo). The new restrictions will also indirectly affect further work on the facility as well as the logistical aspects of its operation. The 'toxicity' of Arctic LNG 2 will hamper its operator's efforts to procure the components for the installation's construction and maintenance, and will discourage shipowners from transporting the LNG produced there using their own vessels. Fearing sanctions, foreign companies may refuse to insure the cargo, and the gas ports may refuse to unload it. This will complicate the logistical aspects of the investment's export operations, especially as Russia is now being forced to use ships sailing under other countries' flags to transport its LNG.
- The sanctions have also had a negative effect on the foreign investors involved in the Arctic LNG 2 project who are its minority shareholders. This is because they prevent any transactions within the project, which may for example make it impossible to effect payments for supplies provided by the sub-contractors involved in the project, to which they are entitled on the basis of the long-term contracts they signed. In this situation, it cannot be ruled out that TotalEnergies and the Japanese consortium will attempt to withdraw from the company; the OFAC has allowed the project partners to carry out the transactions which will be needed to transfer ownership by 31 January 2024. The Japanese companies are now in a particularly difficult situation, because Tokyo views Russian gas as a key commodity in the context of its energy security, as it accounts for around 10% of Japan's total LNG imports. Once all the liquefaction lines are put into operation by the end of 2026, the supplies provided by Arctic LNG 2 on the basis of long-term contracts (2 mn tonnes annually) will account for almost 3% of Japan's total imports and almost 30% of LNG purchased from Russia, provided that the entire volume of Japan's imports is similar to that recorded in 2022, which was 72 mn tonnes.