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New US sanctions: increased financial pressure on Russia

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On 12 June, the United States once again expanded its restrictions in an attempt to further separate the Russian Federation (RF) from international financial markets. The US sanctions lists now include 100 new individuals and entities from Russia (such as the Moscow Stock Exchange, along with the National Clearing Centre it supervises) and third countries, mainly China, the United Arab Emirates, Turkey and Moldova. The US' targets include the financial and logistical chains which Moscow uses to import goods & dual-use technologies and to trade in Russian gold (including the Seligdar gold trading company).

In an attempt to continue to strip the Kremlin of its revenues, the United States has expanded its restrictions targeting the Russian energy sector. The sanctions lists now include both the companies which are intended to manage future projects involving gas liquefaction plants (such as the Murmansk LNG, the Obsky LNG, and companies linked with Novatek), as well as those which were involved in the construction of these facilities (RusGazDobycha, Gazprom Invest) and in the logistical operations linked with the export of LNG. These latter include seven gas carriers which are being built at the Zvezda shipyard to enable the transport of the LNG produced by the Arctic LNG 2, alongside with companies which provide certain elements for ships of this type. The restrictions have also been expanded to cover several companies operating in the coal mining (linked with the Coalstar and Elga holdings) and oil sectors (the Belokamenka terminal in Murmansk oblast).

In addition, the US has introduced an embargo on the supplies of IT consultancy & design and support services, as well as cloud-based services for enterprise management software and manufacturing software. *This decision* will take effect on 12 September 2024.

Washington has also expanded the scope of the secondary sanctions it imposed in December 2023 on financial institutions from third countries. According to the new provisions, sanctions can now also be imposed on entities conducting transactions with Russian businesses which have been put on US sanctions lists due to the Russian government's harmful foreign activity.

Commentary

- The decision to impose restrictions on the Moscow Stock Exchange, as well as the entities it supervises which are involved in handling the transactions, has stripped the RF of the main instruments for setting the market exchange rate, and has effectively taken it back to the 1990s. In response to this decision, on 13 June the Central Bank of Russia (CBR) halted the stock market's trading in US dollars, euros and Hong Kong dollars (so far the EU has not introduced similar sanctions). Trading in other currencies, including

the yuan, will continue although it is unclear how foreign banks will react to US restrictions. However, the restrictions introduced do not equate to a total ban on Western currency trading in Russia. It will be continued on various over-the-counter trading platforms, including on the banking market; it is on this basis that the CBR will set the official exchange rate of the rouble. This will most likely result in a further increase in the cost of servicing foreign currency accounts and international transactions, and due to the forex spread the rouble's exchange rate will be less favourable for both importers and exporters.

- Alongside this, Washington has eased the effects of its sanctions by allowing the Moscow Stock Exchange to settle its US dollar transactions by 13 August 2024 and enabling the National Clearing Centre to continue handling the transactions linked with trade in energy fuels until 1 November. This is important from the point of view of those companies which import gas from the EU, and which since 2022 have been obliged to exchange foreign currencies for roubles via the stock exchange.
- The CBR launched efforts to prepare the market for the introduction of sanctions against the Moscow Stock Exchange as early as 2022. It limited trade in foreign currencies and encouraged Russian companies to use the rouble and several non-Western currencies to settle their foreign trade transactions. Despite these efforts, the market's initial reaction was nervous. In the evening on 12 June, at some banks the price of one US dollar rose to as much as 200 roubles (compared to around 90 roubles on the previous day), and on 13 June exchange offices in Moscow were selling at around 100 roubles to the US dollar. The stock exchange started forex and precious metal trading several hours late. After the first trading session its shares dropped by 16%, although the MOEX and RTS indices themselves only fell by around 1%. The biggest drop (of around 30%) was recorded for the recently sanctioned Seligdar gold trading company. However, we should expect the situation on the Russian stock market will stabilise over the coming days.
- The restrictions targeting the Russian energy sector have mainly increased pressure on the LNG sector, and their principal purpose is to halt the development of this sector as a whole across the RF. By putting the companies which are responsible for the planned or already partly developed gas liquefaction plants (such as the Obsky LNG) on the sanctions list, the US intends to torpedo their emergence at an early stage. The decision to impose restrictions on specific management companies was modelled on a previous move the US made in November 2023, when for the first time in history it sanctioned a company which was directly responsible for the Arctic LNG 2 gas liquefaction plant (see '*Russia: Arctic LNG 2's capacity is reduced due to sanctions*'). This has prevented the transport of the LNG produced there because the companies which were to have provided gas carriers for this purpose withdrew from cooperation. However, it is worth noting that in the end the facility was ultimately constructed. Components provided directly by G7 group companies were used to launch its operation even though the Western technological embargo was already in place (see '*The US is hitting Russia with further sanctions*'). In an attempt to avoid repeating this situation, the US has threated to impose secondary sanctions on any entity involved in cooperation linked with the sanctioned projects or working with Russians in the process of building gas carriers which could enable exports of LNG from the RF to increase.

- Another move which will significantly impact the Russian economy involves the decision to cut Russian companies from US-made enterprise management software and its production capacity starting from September 2024 (including the software made by the SAP company, which is one of the most popular products on the market). The EU has taken similar steps. Although the process of abandoning Western-made software has continued for many years, under pressure from the Kremlin, numerous Russian companies have continued to use these products.
- The US is trying to maintain continuous pressure on the Russian economy by regularly expanding its sanctions. Thus, Washington has striven to eliminate the constantly emerging methods for circumventing the Western restrictions, to increase the cost Russian companies bear for their access to Western goods and services, and to extend the duration of the transactions. Secondary sanctions imposed on third-country entities are a particularly effective instrument discouraging them from cooperating with Russia. In December 2023, the US threated to impose sanctions on financial institutions involved in transactions linked with the provision of dual-use technology and goods to the RF. This decision's effects have included Chinese banks curbing their cooperation with Russia, which in turn has provoked a decline in Russia's imports. In March and April 2024, its imports from China fell by around 10% y/y (the import transactions are settled with a delay of around two months). It should be noted in this context that the import figures for May 2024 were almost identical with those recorded in May 2023, although it is unclear whether this was due to an increase in the prices of the goods or in their volume (for comparison, in the first five months of 2023 Russia's imports grew by 75% y/y).
- Washington is also trying to encourage its allies to continue to expand their sanctions and increase their support for Ukraine. At the G7 summit, which will be held on 13–15 June in Italy, the coalition of Western states intends to devise further mechanisms for putting pressure on the Kremlin. They will discuss a US-proposed programme of financial aid for Kyiv, which involves a plan for Western states to issue so-called 'liberty bonds' worth $50 bn based on the future profits generated by frozen Russian state assets (see '*The EU's decision to use the profits generated by frozen Russian assets*').