

## Note on gaps in sanctions: US and EU

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### US FINANCIAL SANCTIONS GAPS

**US crafted the sanctions in a way that allows them to receive RF dollar payments on the public debt and debts of RF state-owned companies.** US Office of Foreign Assets Control allowed Russia to pay \$117 mln- coupon on March 16 from the RF MinFin accounts which were thought to be “frozen”. There are 2,86 bln total value of RF external bond payments upcoming till May 25 subject to this “mechanism” of payment. ~1,9 bln more mature afterward this year and thus it will be forbidden to the US bondholders to receive these payments. Many believed that accounts of the RF Central Bank, National Wealth Fund, and MinFin had been frozen since Feb 28, when US [sanctioned them](#). Yet, with [March 2 amendment](#) and clarifications to Citibank and JPMorgan handling RF payments on these bonds, OFAC permitted receiving interest, dividend, or maturity payments in connection with Russian debt or equity (until May 25). Similarly, bondholders of Rosneft and Gazprom received \$2 bln and \$1,3 bln respectively in dollars over the last two weeks. Another Unfavorable development to [watch](#): Goldman Sachs and JP Morgan&Chase seem to recommend buying the Russian debt to their clients.

### SWIFT-RELATED GAPS

**Overall share of 6 Russian banks excluded on March 12 from SWIFT (VTB Bank, Bank Otkritie, Novikombank, Promsvyazbank, Bank Rossiya, Sovcombank) is about 25%<sup>1</sup> in total banking system [assets](#), yet the sanction is circumvented.** Vnesheconombank, the 7<sup>th</sup> de-SWIFTed institution, is a national economic development institution and not a commercial bank. Promsvyazbank and Novikombank operate in Russian defense sector. Sberbank & Gazprombank, 1<sup>st</sup> and 3<sup>rd</sup> Russia’s largest banks by assets are untouched. Rossiya, controlled by the friend of Russian president, is outside top-10.

Untouched banks are possible workarounds in this situation. The broker of VTB Bank has already [announced](#) that it had decided to transfer the servicing of foreign securities to other financial institutions in Russia. They took such a step so that clients retain the ability to buy and sell any assets without restrictions. Some other Russian banks, which do not fall under sanctions, expressed the willingness to take VTB customer assets. Therefore, leaving large portion of banking system accessible to SWIFT mitigate the general effects of sanctions.

In addition to above mentioned gap (low coverage by exclusion) there are left other options for Russian banking system: dealing directly with non-Russian banks to process payments using traditional payments channels (fax, email, and any available bilateral messaging systems); using domestic financial messaging service SPFS (at the end of 2020, there were 23 foreign banks connected to the SPFS from Armenia, Belarus, Germany, Kazakhstan, Kyrgyzstan and Switzerland); using Chinese CIPS (a payment system offering clearing and settlement services for its participants in cross-border RMB payments); processing payment in decentralized networks such as bitcoin (but EU, US, Japan are making sure that the Russian state and its elites cannot use crypto assets to circumvent the sanctions).

### EU TRADE SANCTIONS GAPS

**EU trade sanctions both on imports and exports from Russia are not working now, have significant exclusions and delayed starting dates.**

#### Problems with exports sanctions:

- **Oil refineries.** Ban on exports of equipment, technology and related services (technical or financial assistance and brokering or other) for use in energy sector - oil refining (as listed in Annex X of regulation (EU) 833/2014), to any person or entity in Russia or for use in Russia. It applies immediately to new contracts, however, contracts concluded before **16 March 2022 can be executed until 17 September 2022.**
- **Dual-use items.** For contracts concluded before February 26, 2022 an authorization scheme is applied, provided that the authorization is requested **before May 1, 2022.**
- **Defense.** Ban on goods and technology that may contribute to Russia’s military enhancement of development of its defense and security sector. Operations due under contracts concluded before February 26, 2022 are allowed, provided an authorization is requested before May 1, 2022.
- **Aviation and space.** Ban on goods and technology suited for use in aviation or the space industry - exception for the execution **until March 28, 2022**, of contracts concluded before February 26, 2022.

<sup>1</sup> Estimates based on [CBRF reporting](#) as on 01.10.2021.

## Problems on the imports side (EU's imports from Russia):

- **Iron and steel products.** A prohibition on the import, purchase or transport which originate in Russia. The prohibitions **do not apply to the executions of contracts concluded before 16 March 2022, until 17 June 2022.** As of March 20, EU sanctions hit Russia's metallurgy industry covering € 3.3 billion or about 2.1% of EU's imports from Russia, while total EU's imports from Russia were worth [€158.5 billion in 2021](#).
- **Most favoured nation treatment (MFN) in EU markets.** Removal of MFN status may imply both increasing import tariffs on Russian goods and/or imposing bans on certain products and services from Russia. As of March 17 the EU has decided to act "**not through an increase on import tariffs, but through set of sanctions that comprise bans on the imports or exports of goods or services**"<sup>2</sup>. For now, the import ban refers only to certain steel and iron products (2.1% of total imports from Russia).

## US TRADE SANCTIONS GAPS

US trade sanctions hit major Russia's export goods (energy + non-energy products) and cover the large part of Russia's sales to the US - about 60%, yet – many have delayed starting dates.

### Problems with imports sanctions:

- **Oil, petroleum, coal.** Ban on the importation into the US of crude oil; petroleum; petroleum fuels, oils, and products of their distillation; liquefied natural gas (LNG); coal; and coal products. All energy products (HS27) account for about **58% of Russia's sales to US** (in 2021 – \$18 billion). Ban blocks new purchases of Russian energy products, and for existing contracts (concluded prior to 8 March 2022), it is allowed a **45-day wind-down period – till April 22, 2022**.<sup>3</sup>
- **Fish, seafood and preparations; alcoholic beverages; non-industrial diamonds.** Ban on the importation of these Russian-origin products. Ban denies Russia more than **\$1 billion in export revenues per year**<sup>4</sup>. Ban blocks all new purchases from Russia, for existing contracts (concluded prior 11 March 2022) it is allowed to undertake purchases **through March 25, 2022**.

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<sup>2</sup> [https://ec.europa.eu/commission/presscorner/detail/en/OANDA\\_22\\_1776](https://ec.europa.eu/commission/presscorner/detail/en/OANDA_22_1776)

<sup>3</sup> <https://www.whitehouse.gov/briefing-room/press-briefings/2022/03/08/background-press-call-on-announcement-of-u-s-ban-on-imports-of-russian-oil-liquefied-natural-gas-and-coal/>

<sup>4</sup> <https://www.whitehouse.gov/briefing-room/statements-releases/2022/03/11/fact-sheet-united-states-european-union-and-g7-to-announce-further-economic-costs-on-russia/>