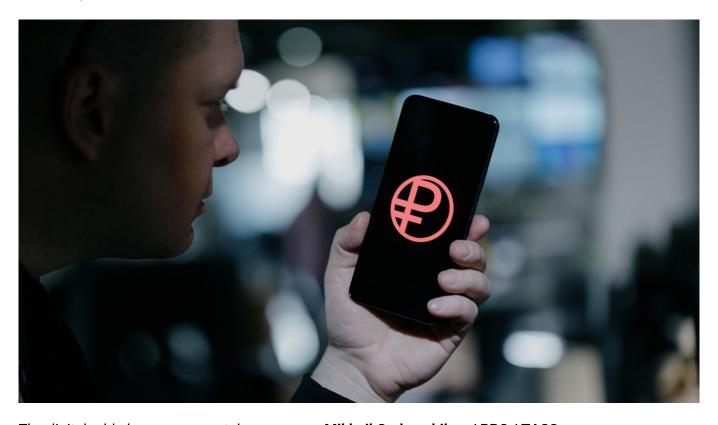


Can Crypto Help Russia Beat Western Sanctions?

Russia has increasingly turned to cryptocurrencies to address challenges with ruble transactions. But it's not exactly a silver bullet.

By Moscow Times Reporter

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The digital ruble logo on a smartphone screen. Mikhail Grebenshikov / RBC / TASS

Russia has increasingly turned to cryptocurrencies to address challenges with ruble transactions including convertibility issues, payment delays caused by Western sanctions and exchange rate volatility.

While crypto may enable Russia to finance illicit activities or facilitate limited trade, its broader adoption in international commerce remains uncertain due to the hesitancy of Moscow's partners and heightened scrutiny from Western governments.

Where does Russia stand on digital currencies?

Since Russia's full-scale invasion of Ukraine, authorities have taken significant steps to promote and regulate cryptocurrencies after years of <u>hesitation</u>.

A new set of laws that took effect in November 2024 legalizes cryptocurrency mining and permits crypto payments for international transactions, though <u>domestic</u> payments are not legal.

The regulations require large <u>crypto miners</u> — those who receive cryptocurrency as a reward for using their hardware to support blockchain networks — to register with tax authorities.

Meanwhile, Russia initiated its first international cryptocurrency transactions in late 2024 under a confidentiality regime. Central Bank Governor Elvira Nabiullina <u>said</u> that the pilot program would last up to three years.

What is behind Russia's move?

Russia's first objective is to leverage its low energy costs to expand its crypto-mining industry.

By 2023, Russia had <u>become</u> the world's second-largest cryptocurrency miner and could soon <u>lead the industry</u> globally, according to Bitriver, the country's largest bitcoin mining provider.

The Russian government has also launched several crypto-related initiatives involving major state-owned enterprises.

For example, Gazprom Neft has <u>announced plans</u> to use <u>flare gas</u> — excess gas burned off during oil drilling — for crypto mining, following the example of countries like <u>Oman</u>.

Better regulation is also intended to improve tax collection and energy management. Under the new laws, the government can <u>restrict</u> mining in regions facing energy shortages, a measure it has already <u>implemented</u> in several regions to prevent blackouts.

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More crucially, Russia seeks to use cryptocurrency for international payments beyond the reach of Western regulators.

"What is important is not how much we will receive in the budget from mining, but that the cryptocurrency that is obtained as a result of this mining has legally become the basis for mutual settlements ... in the external circuit for goods and services that we receive from our partner countries," Russian Finance Minister Anton Siluanov <u>said</u> when announcing legislative changes relating to digital currencies.

Cryptocurrencies may offer greater convertibility internationally and, in the case of stablecoins tied to real-world currencies like the U.S. dollar, less volatility than the Russian ruble or other currencies. They also operate with less Western oversight than traditional financial transactions.

Reuters <u>reported</u> this month that Russia has begun accepting cryptocurrencies via intermediaries for oil sales to China and India.

Russian oil companies are reportedly using bitcoin and the U.S. dollar-pegged stablecoin Tether (USDT) for these transactions. Unlike bitcoin, stablecoins like USDT cannot be mined but can be acquired using other cryptocurrencies.

To improve the domestic circulation of crypto, Russia has <u>drafted rules</u> allowing "highly qualified" investors to trade cryptocurrencies within an experimental framework.

Can Western regulators close the crypto oversight gap?

Western governments have increased scrutiny of cryptocurrency use, particularly as adversaries like <u>Iran</u> and <u>North Korea</u> have expanded their involvement in the sector.

The U.S. recently <u>sanctioned</u> the Garantex crypto exchange for alleged money laundering, leading to the <u>arrest</u> of Russian resident Aleksej Besciokov in India. U.S. authorities seized \$27 million worth of stablecoins linked to Garantex.

There are avenues for illegal or grey area activities in the cryptocurrency world, with nefarious players resorting to unknown or disreputable exchanges like Garantex, peer-to-peer trading platforms or techniques to hide their identity, sanctions analyst George Voloshin told The Moscow Times.

"These limitations make crypto crime prevention difficult, so most investigations are largely reactive. However, the Western governments, with the help of industry professionals, have gotten pretty good with tracking and seizing illicit assets," Voloshin said.

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He cited the Garantex case as an example of successful collaboration between U.S. authorities and blockchain intelligence firm Elliptic.

While the learning curve to quickly detect criminal activity is not on the side of governments, crypto exchanges are increasingly implementing stringent compliance measures as the industry becomes more mainstream, Voloshin said.

Martin Chorzempa, a senior fellow at the Peterson Institute for International Economics, noted that blockchain monitoring tools allow regulators to trace transactions on public ledgers for major cryptocurrencies like bitcoin.

"The key would be to identify a wallet used by either Russia or its counterparty, and then it could be relatively simple to identify all the other wallets transacting with it to get a sense of the network," Chorzempa told The Moscow Times.

However, he warned that crypto mixers — services that obscure transaction histories — may complicate enforcement.

Are Russia's partners willing to trade in crypto?

A key question is whether Russia's major trading partners will settle commercial contracts in cryptocurrency.

Countries like India and China may be open to increasing crypto-based payments for Russian exports.

According to Reuters, Chinese companies can transfer yuan to intermediaries, who then convert the funds into crypto and send them to Russia.

Yet convincing foreign companies to accept crypto for regular, large-scale transactions is a tougher sell. Many of Russia's trading partners, including regional ally Kyrgyzstan and major trading partner China, impose strict limits on crypto usage.

China in particular is one of the least crypto-friendly jurisdictions in the world, banning all exchanges as well as mining, Chorzempa said.

"China sees risks that its citizens will be able to circumvent foreign exchange controls and make untraceable transactions if they have access to it," he said. "My sense is that China has found other ways more like barter to keep trade with Russia going despite sanctions."

Meanwhile, sanctions appear to be causing more problems for <u>Russian importers</u>, who have to use costly intermediaries to make payments abroad, than for exporters.

There are no reliable statistics to estimate how much of Russia's trade with its foreign partners is conducted in cryptocurrencies. But judging by reports, it so far appears to be a marginal, albeit growing phenomenon, said Voloshin.

Beyond the oil trade, cryptocurrency is also being used to purchase civilian and military electronics for Russia. However, most of this trade still relies on traditional banking methods, Voloshin noted.

"Transactions between large state-owned companies, such as Russia's Rosneft selling oil to China's CNPC, would still involve the state banks of the buyer and seller and direct conversions between the ruble and yuan and rupee, which are supported by central banks, rather than using cryptocurrency as a medium of exchange," he said.

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