



ANATOMY OF A MUDDLE: U.S. SANCTIONS AGAINST RUSAL AND OLEG DERIPASKA

EXECUTIVE SUMMARY

The purpose of The Countering America's Adversaries Through Sanctions Act of 2017 (CAATSA) is to encourage Russia to desist from "future influence efforts worldwide, including against U.S. allies and their election processes" by imposing pain on the decision-makers in the Kremlin. In April 2018, the US Treasury Department imposed sanctions under CAATSA on United Company Rusal and Oleg Deripaska. In January 2019, the sanctions were withdrawn against Rusal under the Barker Plan after US allies complained that destruction of the company, which supplies 6% of the world's aluminum, would injure their interests. The sanctions against Deripaska remained in effect. This outcome will not serve CAATSA's purpose.

WHY NOT?

- Putin was not personally affected. Rusal returned to normal operations, thus averting a major problem for the Kremlin in factory closures and layoffs.
- The Kremlin can spin the outcome as a win for the state: state-owned VTB acquired a significant stake in Deripaska's company as a result of the Barker Plan.
- Individuals are replaceable. The humbling of Deripaska will not impair Putin's power.
- Other oligarchs will not break ranks with the Kremlin. Russia has two types of oligarchs: members of Putin's inner circle, who will not disobey Putin because he is the source of their wealth, and titans of industry, whose assets are at the mercy of the Kremlin, which controls the army, police, and courts.

A MORE EFFECTIVE APPROACH:

Target: the sanctioning of replaceable individuals should be abandoned in favor of sanctioning irreplaceable Russian industries.

- Should a plant in Siberia be forced to close for want of buyers of its product, the Kremlin will be presented with some knotty problems: local unemployment, lost revenue, and diminished prestige. A few such disasters and the Kremlin could be expected to think a bit harder the next time it contemplates foreign mischief.

Timing: U.S. partners and allies that depend on a targeted Russian industry must be given time to make alternative arrangements.

- The Treasury Department should announce that sanctions will be imposed on a given Russian company only after a relatively long grace period of perhaps nine months to a year, during which time US partners and allies could find new sources of supply.



TIMELINE OF KEY EVENTS

AUGUST 2, 2017

CAATSA is signed into law. It requires the U.S. Treasury release a report identifying the most significant “political figures” and “oligarchs” in Russia within 180 days.



APRIL 6, 2018

The U.S. Treasury includes Rusal and two of its beneficial owners, Oleg Deripaska and Viktor Vekselberg, on the “specially designated nationals” (SDN) list. U.S. citizens and entities are prohibited from doing business with SDNs. Dollar transactions to and from SDNs are blocked by U.S. banks.



APRIL 23, 2018

Ostensibly responding to complaints from U.S. entities and allies, the U.S. Treasury extends the deadline for counterparties to disengage from Rusal from May 6 to October 2.



DECEMBER 19, 2018

The “Barker Plan” to have sanctions against Rusal lifted is presented to Congress. Under the Plan, Deripaska will reduce his stake in Rusal and the company will be released from sanctions by January 30, 2019.



JANUARY 29, 2018

The so-called “Kremlin Report” is released, per CAATSA regulations. It contains the names of 114 political figures and 96 “oligarchs” including Oleg Deripaska.



APRIL 9, 2018

Rusal loses half its market value and announces it may be in technical default on its loans. The company instructs customers to cease making payments, lest their dollar transfers be stopped and seized.



APRIL 30, 2018

U.S. Treasury Secretary Mnuchin tells *Bloomberg* that sanctions on Rusal could be lifted if Deripaska “sells down below 50 percent.”



JANUARY 27, 2018

After the Barker Plan survives congressional review, the U.S. Treasury lifts sanctions from Rusal and EN+. Deripaska remains on the SDN list.



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