

## **Tim Ash: Thoughts around scope for more US/UK sanctions on Russia**

### **Opinion**

Posted by:

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LONDON, Mar 9, 2018 - Timothy Ash of Bluebay Asset Management, with over 30 years&rsquo; experience as an analyst of economic and political realities in emerging markets, offered the following thoughts on US/UK sanctions on Russia at 11:25 today: We could be approaching another stress point in the Russia &ndash; Western relationship, reflecting a combination of factors: First, the apparent poisoning of a British agent, and his daughter, in Salisbury this week, with official channels pointing the fingers at Moscow, suggests that the British government will be forced to respond with some form of sanctions being imposed on Moscow. Second, the mood music out of Washington is that the US Treasury is finally going to make some sanctions designations linked to the Countering America&rsquo;s Adversaries Through Sanctions Act (CAATSA) reports to US Congress in late January. On the first of these, if the Russian connection is proven (it has yet to be), it is inconceivable that the UK government would not act. You could argue that after the comparable Litvinenko case a decade ago the UK authorities appeared to do everything to avoid escalating tensions with Russia at the time, including failing to disclose their obvious suspicions until years later. But this time around things seem to be different, with the UK authorities coming out publicly very quickly with their concerns, and indeed briefing the media soon after the incident that this was indeed a nerve agent attack. I think the attacks in Salisbury are different this time for a number of reasons: An attack on a British agent, in the UK, challenges the very integrity of British intelligence to defend their own &ndash; why would any foreign &ldquo;spy&rdquo; work for the UK, if British intelligence cannot protect them? The intelligence services will demand a response. The injured extended beyond the specific targets, with 20 people hospitalised as a result, including a British police officer. Clearly this attack represented a danger to the general public, and is being perceived as a terrorist attack in effect on British soil. If indeed, this was a Russian state sponsored attack (still to be proven) it comes with UK-Russia relations already at a low point, and Russia challenging the UK across a range of areas from military to cyber, and media/PR.

The recent harsh rhetoric from the UK defence secretary warning in stark terms of the threat presented by Russia to UK energy infrastructure I think makes the UK government position fairly clear. I think the view in Westminster/Whitehall is that the UK government now has to send a very strident message to Moscow that further actions to undermine the security of the UK will not be tolerated. I guess this leaves the question of what the UK can do, and herein there are a number of options: Following past precedent, at the minimum, one can expect a scaling back of Russian diplomatic representation in the UK &ndash; this could extend to kicking the Russian ambassador out, and even closing the Embassy. Foreign secretary Boris Johnson, hinted at some sanction around the Fifa World Cup, but this would be unpopular with a section of the British public. That said, for the UK, the World Cup in Russia was already presenting numerous security concerns, given the risks from hooliganism. But it is hard to imagine UK official government representation at the event now &ndash; even if the UK FA still participates. Increased focus on rolling out the Magnitsky Act in

the UK, using this to try and identify and prosecute corruption and human rights violators in Russia, through the UK courts. Perhaps focus on reining in the activity of Russian state entities in the UK – herein this could extend to Russian SOEs, including banks. Related to the two points above there could be greater KYC/FATF focus/tightening around Russian entities and individuals operating out of the UK. Given the importance of the City of London for financing Russia and Russian entities this is obviously the UK’s area of prime leverage – I guess at the same time, there are sensitivities in the UK at the moment around how Brexit will impact on the ascendancy of the City of London, and some might argue that anything which further risks/challenges that would be self-defeating at this time. This might argue for a more cautious response in this particular field. Nevertheless, given the seriousness of the Salisbury attack from the UK perspective I would expect the UK to try and coordinate its action with its allies in the EU, the US and NATO. On the risks of US sanctions, it was clear that the US Treasury underwhelmed with its lack of action upon presenting the CAATSA reports at the end of January. But I think partly because of that – and the ridicule of the UST and OFAC which followed, and pointed questioning of US Treasury Secretary Mnuchin which followed in Congress, that the UST will have to respond much more robustly second time around. The circling of special prosecutor Mueller, and also Putin’s combative State of the Nation Address, with very strident messaging around Russia’s ability to challenge the US in the sphere of nuclear weapons/superiority, suggests that the US will feel obliged now to take more substantive action. And therein, I would expect, at the minimum, several scores of entities/individuals (close to Putin) to be sanctioned in the next round of US sanctions lodged against Russia – likely in the next few weeks. I guess a pertinent question herein would be how effective any such sanctions will now be, given the strained relations between the US and its Western allies given the flux over US trade tariffs. Fair point – note that the effectiveness of US sanctions thus far has been the high level of coordination between the US and its partners. One final point is the interesting question as to why Moscow may have chosen to up the ante with the West recently, through events in Salisbury, and also with Putin’s belligerent tone taken during his State of the Nation Address – with all the visuals over new missile capability. The only conclusion one can perhaps draw is this is all somehow related to the looming presidential elections in Russia, due on March 18, and ramping up national pride is all part of ensuring a 70–70 victory for Putin, with 70% support on a 70% turnout. One might hope that if he gets such a result, he might then have more incentive to tone down the bellicose rhetoric and to seek to calm the relationship with the West.

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