



## The Kremlin's Cryptocurrency Sanctions Bypass

**OE Watch Commentary:** According to the accompanying article, “the Kremlin is considering cryptocurrencies as a way of bypassing the international sanctions that are affecting the country’s defense capabilities.” Up until now, Russia’s defense industries have resorted to “import substitution” to ameliorate the affects of sanctions by either developing their own products or acquiring necessary components via other countries. However, sanctions recently imposed against major Russian defense firms may now restrict the Kremlin’s ability to sell weapon systems to foreign customers. The brief excerpt from an interview in the Russian online news outlet *Fontanka.ru* describes how the Kremlin “is considering cryptocurrencies as a way of bypassing the international sanctions that are affecting the country’s defense capabilities.”

While the excerpt does not provide a detailed explanation of how the Russian cryptocurrency system will work, it does claim that such a tool will allow “Russia’s trade partners... to remain unnoticed by the United States” and thus would ensure that they do “not fall under the sanctions.” The article points out that “such ideas have already been discussed at the level of the BRICS (Brazil, Russia, India, China, South Africa)” where they “discussed the possibility of creating a cryptocurrency for the organization.” Even before the crisis began between Russia and Ukraine, the Kremlin leadership was aggrieved that the US dollar served as the global reserve currency. They contend that this economic advantage translates into American military prowess. The Kremlin regards economic sanctions as a powerful tool in America’s hybrid warfare strategy, and Russia has been at the forefront in efforts to weaken American economic might.

The Kremlin remains determined to modernize its armed forces, and will search for means to bypass sanctions so that Russia can continue rebuilding its military. This article asserts that “the cryptoruble is an excellent countermeasure” to Western sanctions and that the Kremlin leadership is waiting for the just the right moment. **End OE Watch Commentary (Finch)**



Bitcoin logo on top of a United States Dollar.

Source: Wikimedia, [https://commons.wikimedia.org/wiki/File:BitCoin\\_Logo\\_With\\_US\\_Dollar.png](https://commons.wikimedia.org/wiki/File:BitCoin_Logo_With_US_Dollar.png), CC0 Universal Public Domain.

“*The cryptoruble is an excellent countermeasure...*”

**Source:** Nikolay Nelyubin interviews businessman Yevgeniy Lifshits, “Бутеринки спасут Россию и сделают Путина президентом (‘Buterinki’ Will Save Russia and Make Putin President),” *Fontanka.ru*, 25 September 2017. <http://www.fontanka.ru/2017/09/25/055/>

*The Kremlin is considering cryptocurrencies as a way of bypassing the international sanctions that are affecting the country’s defense capabilities... Businessman Yevgeniy Lifshits thinks that the “cryptoruble” will come into being very soon: Right before the Russian Federation presidential election...*

*...[Nelyubin] At what level are these discussions taking place? Which ministries and sectors are worried?*

*[Lifshits] At the level of the VPK [military industrial complex] overseers and manufacturers. It is also being discussed at fairly high-level meetings in the Defense Ministry, Rostekh, and so on....*

*...[Nelyubin] Aside from observing reality, what do the powers-that-be need to understand?*

*[Lifshits] The [United] States introduces the sanctions via SWIFT (the largest international interbank system of transferring information and making payments -- ed.) and monitors them there too. But companies want to work, all this wrangling is of no benefit to them. How does this work? You see, you have a buyer, company X, in Europe. It does not want to give away the fact it is working with you, so that it does not fall under the sanctions. Then X buys “Rucoin,” it uses this to settle its accounts with you, and you then convert the profit into whatever currency you need, in China, for example. It is almost the same as the way Iran went back to commodity exchanges when it was subject to sanctions. It is just that today there is a new financial instrument. Drug dealers and so on were the first to use Bitcoin. And now for the state it is the way out of [a] difficult situation....*

*[Lifshits] ...And this will happen the instant that they clearly see a way of avoiding the sanctions using the cryptoruble....*

*...[Nelyubin] Give a prediction about the timescale. When can this “command” be expected?*

*[Lifshits] There are two predictions. If this is the “chief executive’s” trump card, then he will play it at the elections. Second is that the idea is undergoing evolutionary development under the pressure of the West’s sanctions. This means that if everything we described in our report is a cunning plan by the Kremlin controlled by the President, then it will be one of the “saving Russia” election narratives. This means the timeframe is the 2018 presidential election, when Vladimir Putin saves the country from sanctions.... The cryptoruble is an excellent countermeasure....*

*...[Nelyubin] When the Russian Federation is using cryptocurrency transactions, what proportion of the overall Russian economy will it account for?...*

*[Lifshits] Even today it is advantageous for Russia for foreign payments.... Of course if the state supports external payments. Such ideas have already been discussed at the level of the BRICS.... Russia’s trade partners want to remain unnoticed by the United States.*

*...[Nelyubin] But in general does the cryptoruble have a lot of supporters at the top?*

*[Lifshits] Yes, a lot. It is just that this is the “tsar’s” trump card, so it must not be played before the time is right. My theory is that this is the way out and the trump card of the “tsar.” To show the West that we are not Iran, and we can respond in a more technologically savvy way, and bypass the sanctions. The economic ones first and foremost....*