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I. Russia's sovereign debt

Russian Finance Ministry: National Settlement Depository received funds to pay Russia 2035 bond coupon

National Settlement Depository received funds to pay the coupon on sovereign Russian Eurobonds maturing in 2035, the Finance Ministry said. "The Finance Ministry informs that funds for the payment of income on RF external loan bonds maturing in 2035 in the amount of US\$ 102 million due on March 28, 2022 were received by National Settlement Depository," it said. Thus, the Finance Ministry honored obligations to service Russian Government securities in full in accordance with the issuance documentation for Eurobonds, the Ministry said.

Sources:

<https://interfax.com/newsroom/top-stories/77529/>

<https://www.vedomosti.ru/finance/news/2022/03/29/915624-minfin-viplatil-kupon-po-evrobondam-na-summu-102-mln>

II. Banking sector and the decision to close the offices in Moscow and Minsk is the inevitable outcome of the actions taken by the with the help of .

<https://ria.ru/20220328/ebr-1780554909.html>

Experts admit strengthening of the ruble at the pre-crisis level

According to experts, the ruble may return to at the level that was observed before the current geopolitical crisis. For that, there should be an improvement in the situation in foreign policy and a refusal to keep reserves in dollars and euros.

The tactic of keeping reserves in foreign currency turned out to be not entirely safe, so the transfer of Russian exports to settlements in rubles acquired a new meaning. The transfer of gas trade with 'unfriendly' countries to the ruble zone is a significant factor for the further growth of the ruble. Among other factors that make the ruble stronger, are attributed low imports, high prices in the commodity markets, freezing of trading on the Russian stock exchange for non-residents, and a reduction in the flow of foreign currencies.

Today, the geopolitical premium in the ruble exchange rate reaches 40-50 %. Thus, without external pressure, the ruble could trade at 55-65 per dollar. The presence of a positive trade balance, coupled with a relatively calm foreign policy situation, will reduce the pressure on the ruble. So far, experts only expect the ruble to stabilise in the corridor of 80-90 per dollar and the euro to approach 100 rubles.

Sources: <https://ria.ru/20220329/rubl-1780584654.html>

<https://ria.ru/20220329/rubli-1780584176.html>

III. International trade and commodity markets

Analysts named two options for European companies to buy gas for rubles

European companies will be able to buy rubles to pay for gas supplies from Russia in two ways: through non-sanctioned banks or through subsidiaries on the Moscow Exchange. According to experts, the easiest way is to use non-sanctioned Russian banks, or banks that are not included in the US Treasury SDN list, in which consumers (European private energy companies) open ruble and euro/dollar accounts, transfer funds from a euro/dollar account to a ruble account by bank's internal exchange rate and complete the transaction.

The second option is to open a subsidiary in Russia: European consumer opens a subsidiary in Russia, to whose account euros/dollars are transferred, and the daughter sells currency on the Moscow Exchange and receives funds on its ruble account for which it purchases gas.

On March 28, 2022, German Economy Minister Robert Habeck announced that the G7 countries were refusing Russia's demand to pay for energy resources in rubles. In response, Ivan Abramov, Deputy Chairman of the Federation Council Committee on Economic Policy, told RIA Novosti that the refusal of the G7 countries to buy gas for rubles would definitely lead to a cessation of gas supplies. After receiving a directive from the Russian Government, Gazprom will not be able to accept payment in any currency other than rubles, and in the absence of payment, it will not be able to export gas.

According to the International Energy Agency, about 155 billion cubic meters of gas were exported from Russia to the EU in 2021. With an average price of US\$ 272.8 per 1000 cubic meters in 2021, Gazprom's average monthly income from exports to Europe amounted to about US\$ 3.5 billion. In 2022, taking into account the growth of spot prices in the EU, Gazprom's average monthly revenue from gas exports to non-CIS countries is about US\$ 10 billion. According to Russian Federal Customs Service, in 2021, Gazprom, earned US\$ 55.5 billion from the export of pipeline gas.

Russia also exports liquefied natural gas (LNG), but the ruble ultimatum does not apply to it. At the moment, there are two large projects for LNG export in the country: Novatek's Yamal LNG (18.8 million tons in 2020) and Gazprom's Sakhalin-2 (11.6 million tons). At the end of 2021, Russia exported about 16 billion cubic meters of LNG, but this gas is supplied mainly to the Asian market.

Sources: <https://ria.ru/20220329/rubl-1780584654.html>
<https://ria.ru/20220329/rubli-1780588674.html>
<https://www.vedomosti.ru/business/articles/2022/03/28/915595-gazprom-gaza-rubli>
<https://ria.ru/20220328/gaz-1780555471.html>
<https://ria.ru/20220328/gaz-1780491490.html>

Gazprom bookings for transit via Ukraine still at peak, gas being delivered for export as scheduled

Pumping via the Ukrainian gas-transit corridor on March 29, 2022, remains at the same peak level, corresponding to the volumes of the long-term contract of 40 billion cubic meters per year, or 109 million cubic meters per day. "Gazprom is supplying Russian gas for transit through the territory of Ukraine in the regular mode in accordance with the bookings of European consumers," Gazprom spokesman Sergei Kupriyanov told reporters.

Sources: <https://interfax.com/newsroom/top-stories/77534/>
<https://www.gazprom.com>

Export of Russian oil to India grows along with the discount

Since the beginning of March, five batches of Russian Urals oil with a total volume of 6 million barrels have already been delivered (a little over 818,000 tons) to India. This volume is about half of Russian oil exports to this country in 2021. The sales of Russian oil to India are carried out at a large discount to the exchange price of a Brent barrel. On February 22, 2022, the discount was US\$ 4.32; on February 24, 2022, the discount reached US\$ 6.51; on March 2, 2022, the discount rose to US\$ 18.6 per barrel; on March 24, 2022, the discount exceeded US\$ 30, and on March 28, 2022, it was around US\$ 31.01.

India has already contracted 16 million barrels from Russia with delivery in April-May, which is about 1% of the country's annual oil imports. According to experts, discounts on Urals made the Russian direction interesting for India, despite the inconvenient transportation scheme. Provided that an attractive discount is maintained, the country may continue to purchase. According to estimates, the total export of Russian oil to India could potentially reach 1.1-1.2 million b/d in the second half of 2022.

India satisfies 85% of its oil demand with imports. According to the country's Ministry of Oil and Gas, in the 2020/21 fiscal year (ends March 31), 1.440 billion barrels of oil were imported. According to the OPEC report published on March 17, 2022, India's average daily consumption increased by 5.6% over the year from 4.51 million to 4.76 million b/d. At the end of 2022, the cartel also predicts growth up to 5.15 million b/d, or more than 8% per year, as a result of the recovery growth of the economy.

Source: <https://www.vedomosti.ru/economics/articles/2022/03/28/915599-eksport-rossiiskoi-nefti>

Kazakhstan may lose about 1.3 million tons of oil per day during the repair of the terminal of the Caspian Pipeline Consortium

Due to the repair of facilities at the marine terminal of the Caspian Pipeline Consortium (CPC) near Novorossiysk, Kazakhstan may lose about 320,000 barrels per day, or 1.3 million tons of oil, by the end of April 2022. This was reported by the press service of the Ministry of Energy of Kazakhstan. The department clarified that the reduction in production will be considered "part of the compensation plan" in the framework of interaction with partners in the OPEC + oil alliance. By the end of July 2022, Kazakhstan is expected to fully compensate for its obligations to limit production under the deal.

Oil loading at the company's terminal near Novorossiysk was completely halted last week after two of the three operating offshore units were damaged by a storm. The exact timing of the restoration of the devices was not called, the company stressed that "the repair will take a long period." Contracting the supply of spare parts in the current market situation can cause significant difficulties, many suppliers have already refused to supply components. The company is working on the issue of replacing foreign equipment, but there are no concrete results yet. The management of the consortium warned of a possible reduction in the volume of oil transportation by a factor of three from the requests of shippers in the near future.

CPC is one of the largest investment projects in the energy sector with the participation of foreign partners in the CIS. More than two thirds of all oil exported by Kazakhstan passes through the CPC Tengiz-Novorossiysk oil pipeline. The pipeline, about 1,500 km long, delivers oil from fields in Kazakhstan and Russia to a marine terminal near Novorossiysk. About 60.7 million tons of oil per year, or 1.1 million b/d, are exported through the latter. At the same time, about 53 tons of oil was produced at the Kazakhstani fields of Tengiz (26.5 million tons), Kashagan (15.7 million tons) and Karachaganak (10.2 million tons). From Russian fields in the Caspian Sea, 7.6 million tons of oil were delivered via CPC.

Sources: <https://www.vedomosti.ru/economics/news/2022/03/29/915623-kazahstan-mozhet-poteryat-13-mln>
<https://www.gov.kz/memleket/entities/energo/press/news/details/347102?lang=kk>

EuroChem closes deal to buy controlling stake in Brazilian fertilizer distributor Fertilizantes Heringer

On March 28, 2022, Russia's EuroChem Group closed a deal to buy a 51.48 % stake in Brazilian fertilizer distributor Fertilizantes Heringer S.A., EuroChem said in a statement. The deal was valued at BRL 554.6 million or about US\$ 116 million at the current rate. Fertilizantes Heringer has 14 storage, blending and distribution facilities in Brazil and is the country's fourth largest distributor in terms of installed capacity, at more than 4 million tonnes per year.

Source: <https://interfax.com/newsroom/top-stories/77535/>

Polymetal explores spin-off of Russian gold and silver assets to reduce sanctions risks

Polymetal, Russia's second largest gold producer, is considering splitting Russian and Kazakh assets due to sanctions at the request of a group of investors. In this regard, the division of business in Russia and Kazakhstan into two companies with a separate listing on the stock exchanges (Polymetal is traded in London, Moscow and Nur-Sultan) is considered. Polymetal thus seeks to prevent investors from leaving and protect the company from the indirect impact of anti-Russian sanctions.

Source: <https://www.vedomosti.ru/business/articles/2022/03/28/915593-polimetall-rossiiskih-aktivov>

IV. Russian market related developments

Chinese companies will benefit from the withdrawal of the EU and the US from the Russian market

The Russian market, after the withdrawal of many Western brands, presents good opportunities for small Chinese private companies that will look for opportunities to fill the niches that have formed in the Russian market. China's large state-owned enterprises are likely to act with extreme caution, fearing the possible consequences of violating Western sanctions on Russia.

Analysts note that smaller and private companies with more flexible payment methods and logistics can effectively seize the opportunity. The Chinese companies in a number of niche sectors will especially benefit from the exit of the EU and the US from the Russian market. This applies to auto components, food, medical supplies and infrastructure components. At the same time, for Chinese businessmen already working on the Russian market, the fall of the ruble and rising inflation led to a reduction in sales and income, an increase in loan rates, and demands for higher wages from Russian employees.

Source: <https://ria.ru/20220329/kompanii-1780598645.html>

Foreign companies plan to transfer their assets to Russian investors

Some foreign companies started a process of transferring their assets in Russia to Russian business entities. For instance, international tobacco companies such as Imperial Brands, British American Tobacco, Philip Morris consider a transfer of their businesses in Russia to Russian companies operating in the tobacco sector. The Dutch beer company Heineken is also looking for a Russian company to transfer its assets in Russia. In this regard, the lawyers name the following main schemes for assets transferring:

Sale of shares

The key scheme for business transfer is the sale of a share/shares of a legal entity through which a foreign business operates in Russia. Thus, persons related to the so-called 'unfriendly' countries are removed from the management structure of the Russian company, as well as foreign business owners hedge reputational losses from cooperation with the Russian Federation. In this case, both a complete sale, and a decrease in the share of a foreign participant to a minority one, are considered.

Transfer of shares to a nominal owner

If the purpose of the exit is purely reputational or related to sanctions, a company can transfer shares to a nominal owner or a friendly person. This mechanism is well known and understood by Russian business, as it has been used for many years in response to Western sanctions. The first wave of such "transfers" took place back in 2014. At the same time, the transfer of an asset to a nominal owner carries great risks and may have unpredictable consequences, lawyers warn.

Option repurchase agreement

More reliable, according to lawyers, looks a real way out with the connection of the legal mechanism of option repurchase agreement. Simultaneously, with the sale of a share, it is possible to conclude a repurchase agreement upon the occurrence of certain conditions. The option allows its holder to purchase a share in the company at any time without involving the person who issued the option. According to lawyers, the mechanism will be most attractive for foreign beneficiaries who expect to receive assets back when the opportunity to conduct business in Russia returns.

Exit from an LLC

If a Russian company is organised in the form of an LLC, a simple exit is possible. Upon withdrawal from the company, the participant must be paid the actual value of his share in the authorised capital, or, with his consent, property of the same value may be issued in kind. However, it may be difficult to pay to a withdrawing foreign participant if the LLC has an account with a bank that has been sanctioned and the withdrawing non-resident participant does not have an account in Russia.

Creation of new legal entities in offshores

As a possible mechanism for the transfer of business, lawyers also call the creation of new legal entities in offshore companies and the sale of shares in Russian organisations to them. Participation in offshore management makes it difficult to disclose the ultimate beneficiaries of a business while maintaining corporate control. In addition, it is possible to reorganise the company through the spin-off of a new legal entity, to which a part or most of the assets will be transferred.

Regulation features

The currently updated Russian regulation is complicating the analysis of the legal mechanisms for foreigners' exit from businesses in Russia. For instance, by the Decree of the Russian President No. 81 dated March 1, 2022, Russian Government Resolution No. 295 of March 6, 2022 was adopted (entered into force on March 7, 2022). According to this resolution, all options for business transfer are subject to agreement with the Governmental commission, if a foreign person is associated with an 'unfriendly' country. Still, the logic of the work of the Governmental commission remains uncertain: the purpose of the transaction should be indicated in the application for approval, but the criteria by which the evaluation shall be conducted, are not established. Experts believe that the deal will be checked to see if it harms the interests of Russia, or not. While maintaining the goal of ensuring the stability and functioning of business in the Russian Federation, permits will be obtained quite quickly and without obstacles from the state.

Source: https://www.kommersant.ru/doc/5281693?from=glavnoe_3Kommersant

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