

# Russia announces mechanism for purchase of natural gas in roubles

On 31 March 2022, Presidential decree no. 172 (the «Decree») was published setting out a mechanism by which countries that have been designated by Russia as «unfriendly states» must pay for their natural gas purchases in roubles. «Unfriendly states» include, among others, the United States, member states of the European Union, the United Kingdom and its dependencies, Australia, Japan, Singapore, South Korea, Switzerland and Ukraine.

Highlights of the Decree are as follows.

It applies to gas supply contracts («Contracts»): (a) with foreign persons where the gas in question is to be supplied to «unfriendly states»; and (b) with foreign persons that are registered in an «unfriendly state» («Designated Persons»).

It comes into force immediately so a purchaser of gas that is a Designated Person must be in compliance with the Decree no later than the payment deadline for the next delivery of gas under its Contract; failing which no further gas deliveries will be made under the relevant Contract. The Russian customs service will have the authority to block any delivery of gas to a Designated Person that has failed to comply with the Decree.

A Designated Person must open a foreign currency correspondent account as well as a rouble correspondent account («Fx K Account» and «Rouble K Account», respectively) with Gazprombank. These accounts may be opened remotely without a representative of the Designated Person attending at the bank.

The Designated Person will deposit payment for the gas delivery in foreign currency in its Fx K Account.

The Designated Person must then give an instruction to Gazprombank to sell the foreign currency on its behalf on the Moscow Interbank Currency Exchange (MICEX) and purchase roubles, which are then credited to the Designated Person's Rouble K Account.

The roubles held in the Designated Person's Rouble K Account may then be used to pay for gas deliveries under the relevant Contract. Payment for gas is deemed to be made only once roubles from the Rouble K Account have been credited to the bank account of the seller of gas.

Where the Designated Person's payment obligation has been assumed by another person, that other person must also comply with the terms of the Decree.

This mechanism makes it difficult for «unfriendly states» to effectively sanction or seize Russian revenues from the export of natural gas, since ownership of the foreign currency used to pay for gas (whether US dollars or euro) remains with the foreign purchaser until after it has been converted to roubles.

The Decree also leaves open the possibility that the Government Commission for the Control of Foreign Investments in the Russian Federation may issue an exemption to a Designated Person allowing it to pay for gas in foreign currency. In practice, we expect that such exemptions are likely to be granted only in the most exceptional circumstances. Furthermore, no procedure has yet been specified to apply for such exemptions.

It should be noted that proposals have been made to the Russian government by producers of other commodities (as well as agricultural products) that a similar regime be introduced for their exports, so we would not rule out the possibility that the mechanism set out in the Decree will be extended to other Russian exports.

This client alert is prepared for clients and partners of the firm. Information and opinions contained in the alert do not represent detailed legal analysis or a legal opinion.

For more information about the new decree or its implications, please contact a member of our firm.