

CRYPTO MINING AND SANCTIONS EVASION



HOW RUSSIA TRADES ITS ENERGY RESOURCES

Authored by: James Ramsden KC (Partner) and Khrystyna Khanas (Associate) - Astraea Group

Russia has recently emerged as the second largest crypto miner after the US, leveraging its vast energy resources and cold climate to earn billions of dollars and bypass Western sanctions.

Crypto mining industry in Russia is blooming – it is now also backed by the state regulators and most powerful players in both energy and banking sectors of Russia, including GazProm Neft, RosEnergoAtom, En+, Rusal, EuroSibEnergo and SberBank.



Russian miners earn billions of dollars a year, the supply of specialised mining hardware to Russia is breaking all records. Russian energy companies affected by the Western sanctions increase their income through crypto

mining – they sell energy (which is generated in surplus at their mining fields) to crypto mining companies and allow them to use their infrastructure.

Crypto mining companies, in turn, get electricity for their mining operations at cheaper prices. Crypto mining effectively converts energy into cryptocurrencies.

This month, Russian president Vladimir Putin signed 2 important legislative acts enacted by the Russian parliament earlier. The first law legalised crypto mining in Russia (despite raising billions of dollars in profits each year, the industry had previously been unregulated). The second law allowed the use of cryptocurrencies (both mined in Russia and elsewhere) in cross-border trade. Both laws will come into force this autumn.



The Rise Of Crypto Mining In Russia

Between 2017 and 2021, the revenue from crypto mining in Russia has reportedly increased 18 times – from around \$114 million in 2017 to over \$2 billion in 2021. Between 2020 – 2023, the volume of industrial mining in Russia has almost tripled. As of early February 2022, before the Russian invasion of Ukraine and the imposition of unprecedented sanctions on Russian Federation as a result of that, Russia's cryptocurrency market was reportedly valued at over \$215 billion, constituting about 12% of the global market. Cryptocurrency worth about \$4 billion was being mined in Russia, and Russia had the world's third largest crypto mining industry, behind the United States and Kazakhstan. A year later, by the end of March 2023, Russia has become the second most powerful cryptocurrency mining country, after the United States.

The vast majority (over 90%) of Russian industrial miners reportedly focus their efforts on bitcoin.

The growth of mining capacity in Russia was to be expected. There are a number of remote areas across Russia (such as Irkutsk and Sverdlovsk regions, Krasnoyarsk territory and others) that are the most profitable for cryptocurrency mining because of cheap electricity. The climate there is also extremely favourable for mining, allowing miners to save considerable costs on cooling equipment for their

mining farms. Cryptocurrency mining is even more attractive for a sanctions-hit economy suffering from a shortage of hard cash, but with a surplus of oil and natural gas.

After the imposition of unprecedented sanctions on Russia in 2022 and the pressure on its banking system, caused by the sanctions and withdrawal of Visa and MasterCard from Russia, Russian bitcoin mining industry has started to grow exponentially: not only mining offered an alternative revenue stream for energy companies hit by severe sanctions, but it also facilitated conversion of Russian rubles into cryptocurrency (bitcoin), which could be exchanged globally, unlike Russia's fiat currency. Plus, as a result of the ruble's fall following Russia's invasion of Ukraine, bitcoin was worth even more in rubles, and so the mining has become even more profitable.

Back in 2021 (before the Russian full-scale invasion of Ukraine and the imposition of sanctions on Russia), the Russian Ministry of Industry and Trade, the Ministry of Digital Development and the Central Bank jointly discussed the project of Russian oil companies to mine cryptocurrency at their fields. The companies came up with the proposals to use associated petroleum gas (APG) for these purposes. Russia's largest and most powerful oil and gas companies have since shown great interest in industrial bitcoin mining, providing electricity from the associated petroleum gas (APG) to bitcoin mining companies on their sites and for cheaper prices.



Biggest Mining Operator and Its Strategic Ties To Russian Energy Companies

BitRiver is officially the biggest bitcoin mining operator in Russia. It has 15 operating data centers with a total capacity of more than 533 MW, where more than 175 thousand

units of computing equipment are already located and is building 14 new enterprises with a total capacity of more than 1 GW. BitRiver proudly advertises on its website its close relationship with various Russian government agencies. The three most important, "strategic" and "critical", partners of BitRiver (according to its website) are:

- **Gazprom Neft.** Gazprom Neft is a subsidiary of Russia's state-owned energy company, GazProm. In February 2022, both GazProm and GazProm Neft were sanctioned as agents of the government of Russia.
- **EN+ Group.** EN+ Group is the world leader in the production of low-carbon aluminium and renewable energy sources and the largest private energy holding in the world, with strong links to Oleg Deripaska, a Russian aluminium tycoon. BitRiver and EN+ Group formed a separate company for collaboration called Bit+. Due to close partnership with EN+, BitRiver has built its facilities and is using resources of the various strategic objects of the energy infrastructure in Russia, like Bratsk Hydroelectric Station (owned by EuroSibEnergo), a hydroelectric dam in Ust-Ilimsk (owned by IrkutskEnergo, another subsidiary of En+) and others.
- **SberBank.** BitRiver announced strategic cooperation with Sberbank as recently as in July 2024. The parties reportedly intend to develop long-term partnerships for digital transformation projects. "The joint implementation of projects with the largest Russian bank will allow BitRiver to take another step towards strengthening Russia's digital and financial sovereignty," said Igor Runets, owner and CEO of BitRiver.

Crypto Miners in Russia and Sanctions

BitRiver was sanctioned by the US on April 20, 2022. In its statement, OFAC referred to Russia's "comparative advantage in crypto mining due to energy resources and a cold climate" and said that the Treasury "can and will target those who evade, attempt to evade, or aid the evasion of U.S. sanctions against Russia". Despite the statement, this was the only time, as far as sanctions against Russia are concerned, when the US Treasury has designated a crypto mining company.

Notably, in response to sanctions, various sources allegedly close to BitRiver, claimed that sanctions would not affect the operations of the company, and it would continue working with its foreign customers as usual: BitRiver's customers mine cryptocurrencies themselves, under the licenses from BitRiver, albeit using BitRiver's mining facilities (in Russia): it is difficult to determine whether cryptocurrencies are mined in Russia or not. BitRiver's official representative, commenting on the designation, said that the company's orders for machines were scheduled for almost a year ahead.



New Russian Legislation and Plans Ahead

Legalised mining, along with the newly-gained opportunity for miners to trade their mined cryptocurrency internationally, is hailed in Russia as “a source of pure cryptocurrency liquidity”, “a promising mechanism that helps the Russian economy overcome all existing restrictions” and as providing “a new impetus to the development of the domestic economy”.

The new legislation will also help Russian mining industry attract investments from the largest investors, various sources close to Russian industrial crypto miners claim.

The next step in Russia's plan is apparently to create its own crypto exchanges: Russian finance minister Anton Siluanov recently stated, “We have legalised our own mining industry and the possibility of paying for foreign [goods and services] with the bitcoin we mine. Now a question of additional regulation remains – namely, the creation of our own legal crypto exchanges.”

Indeed, Moscow ministers and Russia's Central Bank are reportedly discussing a plan to “create” Russian crypto exchanges – earlier this month Siluanov said that the parties had not yet settled on a mutually agreeable “solution”, but claimed that a breakthrough may be close, and that the relevant legislation may be ready for the autumn session of the State Duma (the lower house of the Russian parliament).

The new Russian legislation and the newly emerged support of the crypto mining industry at the state level is only consistent with its wider efforts and strategy to use cryptocurrencies to evade and mitigate Western sanctions. Considering the scale of industrial bitcoin mining in Russia in particular, the strategy has so far proved to be quite successful.

The reaction of the Western regulators, in the meantime, has been non-existent, despite the vocal discussions of their plans among the Russian ministers and regulators over the last couple of years. This has to change now.

L

