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New sanctions rules on Russian metals: How will they impact global trade?

In a move to "*clamp down harder*"¹ on the trade of Russian metals, the UK and the US have blocked the London Metal Exchange (LME) and the Chicago Mercantile Exchange (CME) from trading new aluminium, copper and nickel produced by Russian producers. The LME and the CME are the two largest metal exchanges worldwide and provide global benchmark prices for the trade of base metals.

What were the existing UK rules in relation to Russian Metals?

On 15 December 2023,² the UK introduced a prohibition on the import, acquisition, supply and delivery, directly or indirectly, of certain metals pursuant to Regulations 46IG – 46II of The Russia (Sanctions) (EU Exit) Regulations 2019 (the "Russia Regulations").

Regulation 46IF sets out that "*metals*" means anything specified in Schedule 3BA, which includes aluminium, copper and nickel among a list of 19 metals.

These provisions are subject to the exceptions and licences set out in Part 7 of the Russia Regulations. Exceptions apply automatically and do not require a licence to be obtained, whereas licences grant authorisations for specified activities.

The Department for Business and Trade had issued a Trade Licence on 13 December 2023 which allowed the LME, global metal exchange members and clients of global metal exchange members to acquire warrants (relating to Russian metal located in a third country) on a global metal exchange subject to certain conditions without being in breach of the prohibition on the acquisition of Russian metals contained in Regulation

46IH(1)(a). It is this Trade Licence that has been amended.³

What are the new UK rules in relation to Russian Metals?

The prohibitions have not changed, but the terms of the Trade Licence have.⁴ These now provide:

For metals already on warrant at 23:39 on 12 April 2024 (paragraphs 3 and 5)

- Trade in warrants for these metals may continue on global metals exchanges.
- These metals can be taken off warrant and:
 - Moved and taken delivery of outside the UK; and
 - Subsequently re-warranted on a global metal exchange.
- These metals remain banned from delivery in the UK.

For metals not on warrant at 23:59 on 12 April 2024 (paragraph 2)

- If produced before 23:59 on 12 April 2024, these metals may be warranted and placed on a global metal exchange. However, any UK person or person located in the UK:
 - Cannot cancel or withdraw a warrant in order to take physical delivery of the metal.
 - Change the location of the metal.
- If produced after 23:59 on 12 April 2024, these metals cannot be warranted and placed on a global metal exchange.

¹ <https://www.gov.uk/government/news/uk-and-us-to-clamp-down-harder-on-the-trade-of-russian-metals>

² The Russia (Sanctions) (EU Exit) (Amendment) (No. 4) Regulations 2023 (S.I. 2023/1364), regs 1(3) and 7

³ <https://www.gov.uk/government/publications/trade-licence-for-acquisition-of-metals-warrant>

⁴ <https://www.gov.uk/government/publications/trade-licence-for-acquisition-of-metals-warrant/trade-licence-for-acquisition-of-metals-warrant>

The condition in the Trade Licence that metal was produced before 23:59 on 12 April 2024 will be met where (paragraph 4):

- The warrant was issued before 23:59 on 12 April 2024;
- The Certificate of Analysis for the metal to which the warrant relates provides evidence that the metal was produced before 23:59 on 12 April 2024 (save where the person knows or has reasonable cause to suspect that the metal was produced after 23:59 on 12 April 2024); or
- Other equivalent evidence of the metal to which the warrant relates being produced before 23:59 on 12 April 2024 can be demonstrated (save where the person knows or has reasonable cause to suspect that the metal was produced after 23:59 on 12 April 2024).

Finally, additional requirements were added in relation to record keeping. A person who cancels or withdraws (or requests or orders the cancellation or withdrawal of) a warrant acquired under the Trade Licence must keep records of (paragraph 7):

- the unique warrant reference, in the form prescribed by the relevant global metal exchange;
- a full description of the metal to which the warrant relates;
- the date on which the cancellation or withdrawal was requested or ordered and the date the warrant was cancelled or withdrawn;
- the date on which the warrant was acquired;
- if the warrant was acquired for the Licence user's own or another's account;
- the global metal exchange the warrant is being cancelled or withdrawn from;
- the Licence user's name and address; and
- a copy of the Certificate of Analysis for the metal to which the warrant relates or equivalent evidence of production prior to 23:59 on 12 April 2024.

Records must be kept for a period of 4 years beyond the end of the calendar year in which the record was created (paragraph 10), and persons acting under the authority of the Trade Licence are required to notify the Secretary of State for the Department of Business and

Trade no later than 30 days after first acting under the authority of the Licence providing their name/organisation name, EORI number (if applicable) and the address at which records may be inspected (paragraph 9).

How will these new rules impact global trade?

Russia is a key producer of aluminium (6% of the world's supply), copper (4% of the world's supply) and nickel (11% of high purity nickel).⁵ On Monday 15 April, after the new rules came into effect, aluminium prices rose by 9.4% before landing on a 2.8% increase, while nickel and copper added 1.5% and 1.6% respectively.⁶

The fall after the initial jump suggests markets are not expecting significant disruptions. As with other commodities where similar prohibitions apply, the reality is that Russian metal will move to sanction-neutral countries likely at a discount because there is already surplus material sitting in LME warehouses and in the coming months there will be some oversupply of newly produced metal that the UK and other sanctioning countries are not touching.⁷

By Tuesday 16 April, Bloomberg was already reporting on a play taking advantage of the new rules and the likely market appetite for Russian metals.⁸

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Contact us

We hope that you find this update both useful and interesting. If you have any comments or would like to learn more about this topic, please get in touch with either your usual SH contact or any member of our commodities team by clicking [here](#).

⁵ <https://www.ft.com/content/e6e47a90-0b1f-41ac-9e70-f440e64d1463?segmentId=98583035-ac35-a0ba-ed44-378e53f8caec>

⁶ <https://www.ft.com/content/e6e47a90-0b1f-41ac-9e70-f440e64d1463?segmentId=98583035-ac35-a0ba-ed44-378e53f8caec>

⁷ <https://think.ing.com/articles/what-do-the-new-russian-metal-sanctions-mean-for-global-trade/>

⁸ <https://www.bloomberg.com/news/articles/2024-04-17/short-squeeze-fears-grip-tin-as-lme-says-it-s-watching-market>