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War Is Calling Crypto's 'Neutrality' Into Question

War in Ukraine and Western sanctions against Russia have made cryptocurrency a hot potato for international politics.

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Take-Aways

- Cryptocurrencies were designed to be neutral and safe from government interference.
- The war in Ukraine has thrown the debate on crypto neutrality into sharp relief.
- Crypto operators will have to take a position on enforcing sanctions or maintaining a hands-off approach.

Recommendation

Cryptocurrencies were intended to be politically neutral, decentralized instruments, but Russia's 2022 attack on Ukraine has changed that. The war highlights how decentralized finance is departing from its original goal of transactional neutrality: Crypto exchanges are blocking the accounts of sanctioned Russians, while Ukrainian officials are successfully soliciting crypto donations to their government's coffers. In this even-handed reporting, technology journalist Gian M. Volpicelli notes that this real-time transformation will have important and lasting implications for crypto's role in society and the economy.

Summary

Cryptocurrencies were designed to be neutral and safe from government interference.

Cryptocurrencies were meant to be free from any sort of intervention or interdiction, whatever activity they financed. But this notion of neutrality has come under question.

"The whole point of cryptocurrencies like bitcoin was neutrality – the fact that no government, bank or entity could prevent you from using it, whether you were paying for a pizza, a forbidden book or a bag of cocaine."

Regulatory bodies worldwide are requiring crypto exchanges to identify and block accounts used for illegal purposes, such as for ransomware and purchases on the dark web. Know-your-customer and anti-money laundering rules compel exchanges in the West to perform due diligence.

The war in Ukraine has thrown the debate on crypto neutrality into sharp relief.

To adhere to sanction requirements against Russia, crypto exchanges Coinbase and Binance have blocked some Russian addresses. But unidentified proxies could own wallets with significant amounts of cryptocurrencies, and undetected movements could occur. At the same time, the use of crypto to evade sanctions would seem to be imprudent. Transactions are executed on the blockchain, a public ledger, and conversions of crypto into hard currencies would appear on regulators' radar. Attempts to conceal the origin of a crypto transaction by means of a "tumbler" or scrambling device would be inefficient, as tools to increase a transaction's indecipherability operate slowly and are not intended to work with big amounts.

"Moving large sums of money in cryptocurrency would hardly be covert. As soon as the owners attempted to convert it to fiat currency outside of Russia, they would alert exchanges and investigators."

Ukrainian officials are calling for a total ban on all Russian crypto transactions, hoping ordinary citizens will pressure Vladimir Putin to end the war. The exchanges are so far resisting this appeal. A complete ban could be costly: Russia's estimated \$214 billion in crypto accounts for some 12% of the total amount of cryptocurrencies. The country is the world's third-largest crypto miner. And Russia could retaliate by ordering its exchanges to ban all Western accounts.

Crypto operators will have to take a position on enforcing sanctions or maintaining a hands-off approach.

The Russian-Ukrainian conflict has translated into high levels of bitcoin trading in both countries. Were a proscription on Russia-originated transactions to take effect, the result would be incendiary, marking a watershed in the crypto community and pitting those who champion crypto neutrality against those support a wholesale ban on Russia.

“As time goes by without a solution, [cryptocurrency] will increasingly become a battleground, and its companies and actors will be asked to take a stance...neutrality might soon not be an option anymore.”

Meanwhile, supporters of Ukraine’s defense have reached for crypto as a funding tool. Crowdfunding efforts and donations from crypto celebrities like KUNA exchange founder Michael Chobanian and the co-creators of Ethereum have ensued. A decentralized autonomous organization (DAO) is helping finance Ukrainian war efforts in a way that allows for indirect donations to skirt compliance and accounting rules.

About the Author

Gian M. Volpicelli is a senior writer at *WIRED*.



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