



RUSSIA BRIEFING

The Practical Application of Russia Business

Sanctions Affecting International Business



INCLUDING

- Legal Framework: What do sanctions really mean?
- Practical impacts of the sanctions regime
- Case Study: Staying on the safe side
- Will sanctions cause Russia to turn East?



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Introduction



Ulf Schneider
Managing Partner

Dear Reader,

This is the first time that we hope that the topic on which we are writing will no longer be relevant by the time you have this issue of RUSSIA BRIEFING in hand. However, the reality is probably different and it might even be just the opposite – that we did not cover all the sanctions on Russia that might now be in force on the day you are reading this.

The US administration and the EU countries issued a sanction list right after the conflict in Crimea started. Initially, the sanctions were not directed against Russia as a country, but only against certain Russian and Ukrainian individuals as well as Russian legal entities. But later the US and the EU have introduced more sanctions, forbidding exports of goods of dual use and infrastructure investments in Crimea.



Helge Masannek
Tax and Legal Director

Some other countries such as Canada, Norway, etc. followed with similar sanction lists; however, these lists had quite specific differences which clearly show that the economic interest of each country is not only different, but governs to quite a degree the creation of the sanction list.

Such sanctions bring up quite a few questions; first, whether they will have any effect at all, second, who will they affect – specific people or eventually a large part of the population or maybe no one – and third, the question is raised whether conceptually, such sanctions are the proper format to reach political targets.

We at RUSSIA CONSULTING believe that the economic sanctions being levied against Russia could eventually contribute to more confrontation and very easily create a lose-lose situation for all involved. With our memberships in different bilateral chambers of commerce, we also tried to have some influence on their respective statements and we see that many chambers clearly positioned themselves against the economic sanctions.



Paul Sprague
Director

I personally believe that all senior management has an obligation in this political crisis to work hard to maintain good economic relations between Russia and the other countries, including Ukraine. Trade between countries contributes to understanding and this is more important than ever before in the current situation.

This current issue of RUSSIA BRIEFING gives you an overview of the regulations on US and EU sanctions and also goes beyond this by trying to find out the potential effects they have and – most important for you – what to do in order to find out whether or not your business is affected by the sanctions. Our experts have developed an efficient and effective program to screen your business partners so that you may avoid risk and continue your business activity in Russia.

Yours sincerely,

Ulf Schneider
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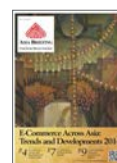


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Legal Framework: What do sanctions really mean?

- By Helge Masannek

In March 2014, the EU and the United States introduced sanctions against certain Russian and Ukrainian persons as a reaction toward Russia's role in the Crimea crisis. European "Regulations concerning restrictive measures in respect of actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine" included economic sanctions, asset freezes and travel bans and have been implemented on March 5 (2014/119/CFSP), March 17 (2014/145/CFSP), May 12 (2014/265/CFSP) and July 12 (2014/455/CFSP) as well as July 30 (2014/507/CFSP). As of July 31, there were 123 individuals and legal entities on the sanctions list.

The US sanctions lists contain 95 individuals and legal entities and were first implemented on March 6 (Executive Order 13660), and then on March 17 (Executive Order 13661), on March 20 (Executive Order 13662) and several later amendments to Executive Orders.

By July 2014, the EU and the US lists together reached 167 positions, including 110 individuals and 57 legal entities. As these sanctions are not unique (for example, very similar sanctions have been introduced earlier against individuals and legal entities in Belarus), it is important to analyze the legal framework of the EU and US sanctions.

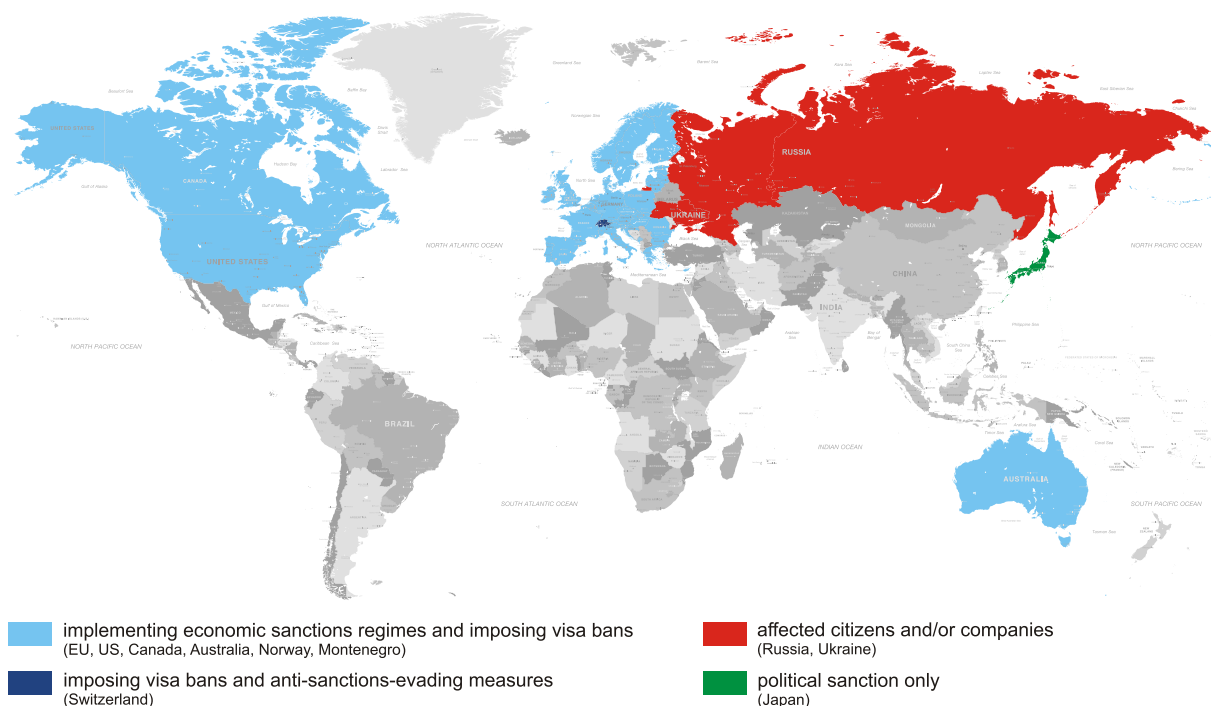
No economic contacts at all

With the sanctions, the EU and the US have tried to exclude both

individuals and enterprises from the economic activities of the EU and the USA, respectively. Therefore, for example, the property of sanctioned persons has been frozen and the sanctioned individuals are also not allowed to enter the EU and the US.

On April 28, the US also imposed an export and re-export prohibition on Russia for high-tech goods which could be used in the defense industry. The U.S. Commerce Department's Bureau of Industry and Security has also revoked existing export licenses for such goods. On July 30 and July 31, the EU introduced sectoral sanctions forbidding investments in Crimea in the areas of electricity networks, oil production, and transport infrastructure. Any technical assistance in these areas, even verbal consultations, are forbidden. The EU has also prohibited arms exports and exports of goods of dual use to Russia, as well as it has banned Russian state-owned financial institutions from the European capital markets.

Both the EU and US sanctions forbid any economic interactions with listed persons and also with companies that are 50 percent or more owned by a listed person. This means that it is forbidden to obtain goods from a listed person or to sell goods to them. Obtaining or rendering of services is also forbidden. Additionally, it is illegal to manage the property of sanctioned persons in any form, as well as to pay dividends to them.



And there are even more items to consider. Along with the companies which belong to listed individuals in amounts of 50 percent or more, the sanctions also affect companies which do not belong to listed individuals legally, but are controlled by them, sometimes via middlemen.

Other countries follow

After the introduction of sanctions by the EU and the US, other countries followed suit. Within months, countries like Norway and Montenegro joined the EU sanctions regime.

On March 17, Canada introduced its own sanctions list (Special Economic Measures (Russia) Regulations, SOR/2014-58), with rules similar to the US rules. This list was extended on March 19 (SOR/2014-58), March 21 (SOR 2014-62), April 28 (SOR 2014-65), May 4 (SOR/2014-98) and May 12 (SOR/2014-108). The Canadian sanctions list consists of 47 individuals and 19 companies. Some names which are found on the US or EU lists, are not included on the Canadian list. For example, Igor Sechin, a CEO of Russian oil giant, Rosneft, was not included on the Canadian list, although his name is on the US list. Rosneft is active in Canadian oil projects.

On April 2, Switzerland introduced its own measures "to prevent escaping from the sanctions", which were extended on May 20 (SR 946.231.176.72.). Making new business contacts with listed persons is now prohibited and previously existing business relationships must be reported to the authorities. Switzerland also imposed travel bans against those on the EU lists.

Australia has imposed its own sanctions too. Japan has introduced a very special type of sanctions – in the form of cancelling the Japanese-Russian talks on visa liberalization, defense cooperation and investment agreement.

Should I follow the sanctions?

One of the most essential questions for any company and individual is whether they should follow the sanctions regime. The answer is rather simple here. Both the EU and US sanctions regime must be followed by companies established under EU and US laws, respectively. This means that a German or French company can not sell goods to a listed person or manage its property.

























Within most sanctions regimes (including those related to Russia and Ukraine) the prohibitions also apply to the foreign branches (and representative offices) of EU and US companies – but do not affect the foreign subsidiaries of these companies which are established under foreign laws. The US expands its sanctions regime to all foreign subsidiaries of US companies only within certain situations, such as the sanctions against Iran or North Korea. But it should be noted that the purposeful structuring of a business in such a way that the sanctions are circumvented, e.g. by delivering goods via subsidiaries to listed persons, will be regarded as a violation of the sanctions.

This means that a Russian representative office of a German or US company must follow the European or US sanctions against Russia, respectively, but a Russian subsidiary of a German or US company is not required to do so. One important exception: if a foreign company has a US representative office, the US laws would view this company as a US company and demand adherence to the US sanctions regime.

Private persons are liable too

No matter where they live, citizens of the EU or the US should follow the sanctions. This means that a German or US director working for a Russian subsidiary of a German or a US company will find himself liable for forbidden interactions with listed persons, even if the company itself is considered to be a Russian company and does not need to follow the sanctions.

In the following table, you can find out how the sanctions are implemented based on the origin of the individual or company.

	EU company* or • its foreign branch • its foreign representative office or an EU citizen		US company* or • its foreign branch • its foreign representative office or a US citizen or resident		Non-EU and Non-US company		Non-EU and Non US-citizen who resides neither in the US nor in EU**		
acts in the EU		EU list applies		EU list applies		EU list applies		EU list applies	* Subsidiaries of EU or US companies registered outside of the EU or US, respectively, are not regarded as EU or US companies, but as non-EU and non-US companies. ** For example, a Russian national residing in Russia who wants to sell his house that is located in the US or EU to a listed person.
		US list does not apply		US list applies		US list does not apply		US list does not apply	
acts in the US		EU list applies		EU list does not apply		EU list does not apply		EU list does not apply	
		US list applies		US list applies		US list applies		US list applies	
acts in a third country (for example, in Russia)		EU list applies		EU list does not apply		EU list does not apply		EU list does not apply	
		US list does not apply		US list applies		US list does not apply		US list does not apply	

The same situation occurs if an EU or US citizen runs his own company in Russia. Such a company is legally a Russian company and does not need to comply with the EU or US legislation while operating in Russia. However, if an EU or US citizen is the owner of the Russian company or is acting on the behalf of the company, they are obliged to follow the sanctions. Thus the company is to a certain extent obliged to follow the sanctions.

Are there any exceptions?

Like all legislation, the sanctions regime has its exceptions too. The most obvious one affects contracts that have been signed before the sanctions came into power. According to the EU laws, European companies may still receive payments due on these contracts if the goods have already been delivered. The EU also allows medical assistance to listed persons if the condition is life-threatening; to give legal assistance in cases related with the sanctions regime; or to sell goods or deliver services if identification is normally not required for this interaction (for example, shops and restaurants).

The Canadian law goes further and allows pension payments to any person in Canada or any Canadian located abroad, as well as some international payments (UN, payment for certain legal services, etc.). Payments made by or on behalf of listed persons pursuant to contracts entered into prior to the sanctions are also allowed if the payment is not for their benefit.

The US law is the most restrictive and forbids any payment or goods delivery, even pursuant to contracts entered into before the sanctions' introduction and foresees a special license for any company that wants to fulfill its contractual obligation.

Individuals who are invited by international organizations, like the UN, or act within these organizations on behalf of their country are normally free from the sanctions regimes even if they are listed by the US or the EU.

What if I break the rules?

The fines for breaking the sanctions regime can be substantial. According to the US law, every purposeful violation can result in a fine of up to US\$1million and imprisonment for up to 30 years. In the EU, the penalties differ from country to country, but can also reach substantial sums. In Germany, for example, a person can face imprisonment for up to 10 years. In France, a person can be imprisoned for up to 5 years. In addition to the legal consequences, there might also be some reputational risks for those companies that are publicly named as sanctions violators by the EU or US authorities or by the mass media regardless of whether these allegations are even legitimate.

What is very important to note is that a negligent action can be punished too. A person who acts responsibly should carefully check all their business contacts, including partners, customers and suppliers. For example, by using a search engine exclusively developed by RUSSIA CONSULTING. This search engine allows a company to check the ownership structures of almost every Russian company, showing not only the owners of the company but also the ownership of the parent company and its parent company, etc. It also allows a company to find the name of the General Directors of these companies and to avoid legal and reputational risks which can occur through dealing with listed persons.

Practical impacts of the sanctions regime

- By Paul Sprague

Having been introduced as political sanctions, the EU and US sanctions against Russia have shown their economic impact straight away. Many unrelated companies are already suffering from rising credit costs and economic uncertainty.

Who is really hit?

As over 6,000 companies with German capital are active in Russia, most of them have been concerned about the consequences of the sanctions regime. Although there are no direct consequences for Western companies, the indirect impact is very obvious. Costs for financing goods delivery to Russia are rising as banks view these deliveries as being more risky. Additional costs are caused by necessary checks of clients and suppliers – these checks need to be done to exclude possible interactions with listed persons. Russian companies that want to invest in Europe also suffer from rising credit costs. Vagit Alikperov, the president of Russian oil giant,

Lukoil said during the Economic Forum in St.Petersburg in May 2014 that his company suffered from uncertainty in the financial markets and could not get credit as easy as before because of the sanctions. General Director of Gazprom Neft, Alexandr Dyukov added that he expected Russian companies would face rising costs for credit because of the sanctions. The same idea has been shared by Yuri Soloviev, CEO of VTB Capital - "We see that the US and European investors [have lost] their interest in the Russian market. There is far [less] credit from the UK."

Many Russian businessmen have claimed that Western banks require special agreements which foresee an immediate credit payback in case the Russian company is placed on the sanctions list. Of course, such an agreement would make a credit contract unacceptable for any company.



What precautions are needed?

Even for the biggest companies, it is often unclear what is really forbidden. The most impressive example is the case of Visa and MasterCard's decision to cancel activity with the Russian SMP Bank in early March of this year. The SMP Bank was not on the US sanctions list but two of its owners, the Rotenberg brothers, were on the list. As each of them own over 35 percent of the bank's shares, Visa and MasterCard decided to stop activity with the bank – only to be notified by the US Treasury Department that it was not necessary, as none of sanctioned persons own 50 percent or more of the bank. A few weeks after activity was restored, the US Treasury Department surprisingly put the bank on the list, banning it from economic interactions with Visa and MasterCard.

The question that many managers of Western companies ask themselves is whether they should only fulfill the legal obligations or also take into account reputational risks. An obvious example could be a European company that has important contracts with the US government or in the defense industry. Although a Russian subsidiary of this EU company falls neither under the EU nor the US sanctions regimes, the management of the company should think twice whether it should voluntarily follow the US sanctions.

The sanctions strike back

In reaction to the Western sanctions, Russia has imposed entry bans on 13 Canadian and 9 US politicians. But what is more important is that a "national payment system" law has been introduced. The new law

prohibits international payment processors from cutting off services to Russian clients and obliges them to locate their processing centers in Russia. Also, international payment processors must place a security deposit in Russia's central bank equal to the average value of two days' worth of transactions (i.e. US\$3.8 billion for Visa and MasterCard together). In case services provided by the payment processors are suspended, Russia would fine the processors with penalties of US\$280,000 for every day of suspended services. And that is not all. Since late July, Russian MPs have started to actively discuss counter-sanctions measures, including import bans for agricultural goods from the EU as well as the prohibition for foreign legal and consulting companies to operate in Russia.

Additional responses from the Russian side are still possible, as some Russian politicians have even suggested confiscations of foreign companies' property as a suitable reaction to the western sanctions. In any case, the economic environment is still very dependent on the political situation.

Trade volume between Russia and sanctions' imposing countries/unions (2012)	
	US\$bn
EU	495
USA	39.9
Canada	2.8
Australia	1

Case Study: Staying on the safe side

- By Sergej Sumlenny

For many companies, the sanctions regime means their business in a related country may become uncertain. As substantial fines and even imprisonment can be the legal consequences of sanctions' violations – even if the sanctions have been violated unwillingly – companies should properly check all of their business contacts. At the same time, it could be a real challenge for an average foreign company, having business in Russia, to find out whether they should follow the sanctions, and if yes – which business contacts could present a risk. In particular, mid-size companies, which do not have enough experts in international law, can find themselves swamped with these topics.

That's why it is important to be supported by specialists who know the situation and risks. For example, a European construction company, a client of RUSSIA CONSULTING, works in Russia via its branch office. This company has several hundred clients and suppliers which should be checked regarding the sanctions.

RUSSIA CONSULTING used its own search engine, exclusively developed for this research and checked all business ties, analyzing the ownership structure of every company's contact, including the second-level ownership (parent companies of the company's contacts). Very soon it became clear that one of the suppliers of the client, an enterprise which sells screws and other hardware, belonged to a listed person. As a result, the European client was forewarned and able to cancel this forbidden business, staying on the safe side.

The search engine developed by RUSSIA CONSULTING also allows us to find out whether a customer or supplier of the client has a General Director who is named on the sanctions lists. Although neither the US nor the EU sanctions regimes forbid dealing with such companies, as the General Director typically doesn't have ownership interests, it is still good to know about this state of affairs in order to prevent possible reputational risks.

Can sanctions be effective? A lesson from history

- By Sergej Sumlenny

Economic sanctions are a very common tool used by governments to make their opponent's economy weaker, to hunt certain persons or groups, or to put the foreign government under pressure by making local businesses unhappy.

Cuba: How long can you hold the sanctions?

The easier it seems to introduce sanctions, the more unforeseeable the consequences can be. It is not a seldom situation that sanctions regimes against certain countries last for decades – without clear results. The most visible example are the US sanctions against Cuba. Having been introduced in 1962 during the missile crisis, Cuba-related sanctions remain one of the longest-lasting in the world, but obviously failed to bring about clear results. Interestingly, Cuba-related sanctions are among the strictest US-sanctions: for example, it is forbidden for US citizens to buy Cuban cigars even when located abroad.

Iran: A postponed effect

Another example of long-lasting sanctions is found in Iran. The US introduced the first sanctions against Iran in 1979. Meanwhile, the UN, as well as many countries introduced partial or general sanctions against Iran. Since 2012, the EU also imposed an oil embargo against Iran with high inflation rates and unemployment following.

Iran's moderate liberalization which has taken place since the summer of 2013 under the newly elected president, Hasan Rohani could be considered as one of the successes of the sanctions. But the fact that the sanctions regime lasted over 30 years without any visible results shows no clear causality. According to many researchers, even the high economic price of the sanctions regime was just not high enough for the Iranian authorities to prevent them from searching for a political deal with the West, as political demands were too high.

Georgian wines and waters: An opposite force

It is not a rare situation for sanctions, or sanctions-like measures, to result in the opposite effects intended. In spring 2006, Russian authorities forbade imports of Georgian wines and mineral water to Russia – a tough decision, since 80 percent of Georgian wines and 35 percent of Georgian mineral water, "Borjomi", are exported to Russia.

Although Russia has never officially acknowledged these measures to be "sanctions" and Russian authorities have said the only reason behind the prohibition was the poor hygiene of Georgian production methods, many observers believed there were political reasons for such decisions.

In any case, the consequences have been very political. As Georgia has lost its share of the Russian market (before 2006, 10 percent of Russian wine consumption was Georgian wines), Georgian president Mikhail Saakashvili announced the cancellation of Georgia's membership in the CIS. Georgian mineral water returned to the Russian market in 2013.

Belarus: Attractive despite the sanctions

An interesting situation can be observed in Belarus. The representatives of the Eastern European republic's authorities were first put on the EU sanctions list in 2006, and nowadays the Belarus-related list contains over 240 individuals, including the president of Belarus, Alexandr Lukashenka, as well as dozens of legal entities. At the same time, in 2014, Belarus reached 63rd place in the "Doing business" rankings which look at the complexity of doing business in different countries. Belarus slightly improved its position from 2013 (64th place) and it is much a much better result than Russia (92nd place) or Ukraine (112th place).

As these and many other examples demonstrate, sanctions may not be effective against countries in every situation. While it is manageable to hunt a certain group of people: for example, some businessmen suspected of organized crime or financing terrorism, it is almost impossible to force a country to change its politics by introducing sanctions. In most cases, the effect is not present at all or it can be reached only after decades of a long-lasting strict sanctions regime.

Major US Sanctions imposed against countries

Country	Year
North Korea	1950
Cuba	1962
Iran	1979
Syria	1986
Burma	1997
Sudan	2002

Will sanctions cause Russia to turn East?



Shawn Greene

Publications Editor, Dezan Shira & Associates

On the heels of Gazprom's landmark natural gas deal with China, speculation is rife among European investors that this may be the first sign of an eastward shift in Russia's economic focus. Although concerns over Western sanctions may push Russia to consolidate its political and energy sector ties with Asia, a significant migration of commercial opportunities away from Europe is unlikely for the time being - barring significant divestment from Russia by Western companies.

Despite growth in Russia-Asia trade over the past decade, the European Union continues to rank as Russia's largest trading partner and last year accounted for more than 40 percent, or €326.3 billion, of Russia's total trade. In contrast, Russia-China trade accounted for around €60 billion in 2013, or close to eight percent of Russia's total. Russia's other key trading partners in Asia-Pacific such as Japan and South Korea accounted for €24 billion and €18 billion, respectively. Foreign direct investment (FDI) totals mirror this disparity, with European Union FDI into Russia totaling €189.5 billion in 2013 (75 percent of Russia's total FDI stocks), and Chinese FDI at only around seven percent of that amount (€13.58 billion).

The European Union's trade and investment relationship with Russia has historically been dominated by the export of EU goods and services, and the import of Russian raw materials and gas. Generally, the EU's top exports to Russia closely match the country's leading imports, with EU exports to Russia dominated by machinery and appliances, transportation equipment, chemicals and related products, and manufactured goods and articles.

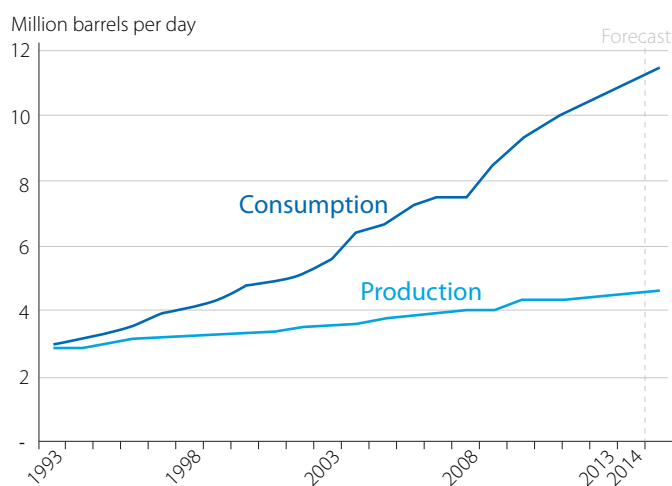
Energy Supply and Demand

A critical component of Europe's economic relationship with Russia features a continued reliance on Russian raw materials and energy exports - primarily oil (crude and refined) and gas. While targeted Western sanctions against Russian individuals and legal entities have little direct impact on this relationship, calls for European countries to decrease their energy dependence on Russia are beginning to push Russia eastward to seek out new energy export markets. With Russia's top exports consisting of crude petroleum (35.55 percent), refined petroleum (17.02 percent), petroleum gas (13.19 percent), coal briquettes (2.61 percent), and raw aluminum (1.5 percent), export market diversification is critical to the long-term survival of

the country's economy - and would potentially buffer the effects of a rapid decline in European demand for oil and natural gas.

According to the Asian Development Bank (ADB), Asia-Pacific's energy demand is projected to grow at a yearly rate of around 2 percent through 2035 (compared with a global average of only 1.5 percent). This will be met through a 60 percent increase in demand for oil, a 53 percent increase in demand for coal, and a 4 percent per year increase in demand for natural gas by the region over the same period. Perhaps most notably, China and India are together projected to account for half of the total increase in global energy demand through 2035. As Russia begins to target new energy export markets, Asia-Pacific's skyrocketing demand for oil and natural gas, combined with its close geographic proximity to Russia's eastern Siberian oilfields, make the energy-starved Asia-Pacific the ideal candidate for energy export market diversification.

China's oil production and consumption, 1993-2015



Source: EIA International Energy Statistics and Short-Term Energy Outlook, January 2014.

While some European investors have vocalized fears that Russia's recent natural gas deal with China is only the first indicator of a newfound political and economic alliance between the two nations - and one that will ultimately result in an economic shift away from Europe - a closer look at the substance of China and Russia's relationship reveals an economic bond substantiated by the supply and demand of energy commodities.

In recent years, Chinese FDI into Russia has been dominated by investment in Russia's energy sector. Breaking down China's €13.58 billion FDI into Russia last year, more than 50 percent (€7.18 billion) was concentrated in Russia's energy sector, followed by €1.9 billion in metals, €1.6 billion in agriculture, and the remainder in real estate, finance, transportation, and technology. Viewed alongside China's leading imports of crude petroleum (13 percent), integrated circuits (7 percent), iron ore (6.8 percent), cars (2.9 percent), and refined petroleum (2.3 percent), it should come as no surprise that China would seek to take advantage of an opportunity to - at least publicly - more closely align itself with Russia. Doing so will allow China to secure much-needed long-term access to the country's vast energy reserves as its energy demand is set to soar more than 75 percent by 2035.

The Gas Deal

The finer points of Russia's landmark 30-year gas deal with China are further indicative of the country's desire to strengthen its energy-focused economic relationship with the Asia-Pacific. While the exact details of Gazprom's deal with state-owned China National Petroleum Corporation (CNPC) remain unclear, speculation over prices - which remains a "commercial secret" - have led some analysts to conclude that Russia settled for a slight financial loss in exchange for the establishment of a long-term economic relationship grounded in Chinese dependency on Russian oil.



This claim has been substantiated by rough calculations working backwards from the estimated €293 billion value subscribed to the deal. At this price, the 38 billion cubic meters of gas Gazprom will begin supplying in 2018 is likely being purchased at between €256 and €278 per 1,000 cubic meters. If China is paying closer to €256 per 1000 cubic meters, the gas deal may be roughly equivalent to the cost of production and transportation - meaning Russia will only break even in the long term, while being expected to fulfill a €40 billion commitment to developing its gas fields and pipelines in the short term. To put this price in context, Western Europe currently pays around €278 per 1,000 cubic meters for Russian gas.

Big Picture

Elsewhere in Asia-Pacific, few signs point to Russia consolidating economic relationships based on anything beyond energy commodities in the short-term. While analysts are divided about the future direction of Russia's economy, most agree it will not refocus on Asia anytime soon.

On the sidelines of the Shanghai CICA summit at which Gazprom's deal was inked, Russia committed to several minor agreements and discussions with Vietnam and India (among others) focused primarily on gas exploration, drilling, and pipeline expansion efforts, rather than more traditional topics such as bilateral trade and investment. Alongside Russia's courting of future energy export partners, the soon-to-be completed Power of Siberia Pipeline (Yakutia-Khabarovsk-Vladivostok Pipeline) will pave the way for Russian gas and liquefied natural gas (LNG) to be pumped to Japan, northeastern China, South Korea, and North Korea through possible pipeline extensions, while developing Vladivostok into an LNG overseas export hub.

A key point to take note of, however, is that while a significant migration of commercial opportunities away from Europe is not imminent or likely in the short-term, willful divestment by Western companies would have the potential to force Russia to look east. The failure for several major American and European companies to send representatives to the recent International Economic Forum in Saint Petersburg only strengthened calls from Russians for the country to fulfill its future financing needs through state banks and Asian investment rather than Western capital. If Russia does turn east, it is unlikely to be an organic affair, but rather a response to conscious divestment and distancing on the part of Western companies and investors.

1. What are the sanctions against Russia?

To be exact, there are two types of sanctions. There are sanctions from the EU and the USA (and measures from some other countries, for example Switzerland, Norway and Australia) against certain Russian and Ukrainian persons (individuals and legal entities). There are also sectoral sanctions, prohibiting arms exports to Russia (US and EU), access to capital markets for certain banks (US and EU) or infrastructure investments in Crimea (EU only). Nevertheless, very sensitive sectors, like gas exports from Russia, are not subject to the sanctions as of July 31.

2. Who is on the list?

In total, on the EU and US lists are 110 individuals and 57 legal entities (as of July 31, 2014). There are politicians, businessmen, military and security personnel and even journalists among the listed individuals. Companies which are owned 50 percent or more by a listed person or entity are automatically sanctioned, even if not directly listed.

3. What is forbidden?

Sanctions forbid any economic interaction with listed persons and also with companies which are owned 50 percent or more by a listed person. It is forbidden to obtain goods from the listed persons or to sell goods to them. Obtaining or rendering services is also forbidden and it is illegal to manage the property of sanctioned persons in any form, or to pay dividends to them.

4. What is the difference between the SDN and SSI list?

The US has introduced two different sanctions lists: an SDN (Special Designated Persons) and an SSI (Sectoral Sanctions Identification) list. While the SDN list forbids any economic interaction with the listed person or legal entity, the SSI list only forbids providing certain financial services such as monetary loans with a maturity lasting longer than 90 days. Most persons and legal entities that the US has listed due to the Russian-Ukrainian crisis, were put on the SDN list, and only a few legal entities were put on the SSI list. Although economic contacts with these companies are not forbidden, caution is needed as reputational risks cannot be ruled out.

5. Who must follow the sanctions?

The EU sanctions must be followed by all companies constituted under the EU law, as well as by the foreign branches (not subsidiaries) of these companies and by all EU citizens, irrespective of where they live. The US sanctions must be followed by all "US persons" – this means all companies constituted under the US law, their foreign branches (not subsidiaries), US citizens and foreigners who permanently live in the US.

6. What if I break the rules?

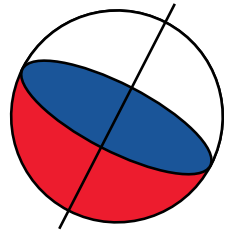
Both the EU and the US laws foresee substantial penalties for violating the sanctions regime. Fines for each violation can reach US\$1 million in the US and a liable person can be imprisoned for up to 30 years. In the EU, fines are the subject of each country's legislation. For example, in Germany a liable person can be imprisoned for up to 10 years. Negligence is also punishable.

7. How can I be sure I am on the safe side?

As negligent behavior is punishable, a person or company should act responsibly. This means that all business contacts, including customers, suppliers and partners should be carefully checked to find possible interactions with listed persons. For example, at RUSSIA CONSULTING we have developed a special search engine that allows us to check the ownership structure of almost every Russian company, as well as that of the parent company and to check whether the company's General Directors are among the listed persons. As a result, a forbidden interaction can be localized and stopped before the legal consequences follow.

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The EU and US sanctions prohibit any economic interactions with people and companies that are on the sanctions list. The answer to the question of whether a company has to follow the sanctions regime can be decisive for its business. At RUSSIA CONSULTING, we have developed a search engine which allows us to check hundreds of clients' contacts very quickly. Thus, the client is safe and he can prove that he acted honestly and checked all the available data using all the legal ways.

In the framework of our comprehensive check we offer to:

- **Check your Russian business contacts including complicated ownership structures**
- **Assess your reputational risk**
- **Evaluate the results and provide advice**

Request a check of your Russian business partners today and find out whether they are covered by the sanctions.

EU and US Sanctions

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