

Business in Today's Russia: What U.S. Companies Need to Know

Matt Edwards

Director, Office of Russia, Ukraine and Eurasia
U.S. Department of Commerce

Minneapolis
September 26, 2017



Can you do business in Russia?

- \$5.8 billion in U.S. goods exports in 2016
- Population: 142 million; 2016 GDP \$1.26 trillion*
- World's 11th largest economy (GDP); 6th-largest in purchasing power*
- 2016s GDP *per capita* (PPP) = \$26,490*
--higher than in Brazil, India, China or South Africa
- Many U.S. companies manage broader regional operations from Russia.

* Source: IMF

Should you do business in Russia?

?

Should you do business in Russia? Maybe...

- Stabilization of the Russian Ruble since 2015
- GDP growth projected at 2% for 2017-2018
- Large resources provide some assurance of large revenues
- Sophisticated consumer base
 - 15 cities with populations greater than 1 million
- Some areas where Russian policy creates opportunities

...or maybe not?

- “Structural” conditions:
 - State-owned companies’ significant and growing role in the economy
 - Political interference from Russian authorities (varies from industry to industry)
- Policy changes that might stimulate faster growth in the Russian economy:
 - Unlikely to happen between now and March 2018
- Long-term trend toward “import substitution” as an official policy of the Russian government

Fallout from the Russia/Ukraine conflict:

- U.S. Sanctions vs. individuals, entities and sectors
- European Union and other countries' sanctions
- Russian countersanctions imposed in August 2014 (food products)
- Additional U.S. sanctions imposed by *Countering America's Adversaries Through Sanctions Act* of August 2017 ("CAATSA")

Results:

- Higher risk premiums = more difficulty in financing deals
- More reliance on state-owned companies and import substitution
- Lower "velocity" of new international business relationships

What About Sanctions?

- 1) SDN – “Specially Designated Nationals” – targets specific named individuals & entities
 - 2) SSI – “Sectoral Sanctions Identifications” – targets particular sectors
 - 3) Comprehensive territorial sanctions
- U.S. sanctions have been in place since March 2014 in response to Russia’s seizure of Crimea, and were expanded in response to its incursions into eastern Ukraine. Those sanctions target:
 - Individuals and entities involved in Crimea and eastern Ukraine
 - “cronies” of the Russian leadership
 - the energy, defense and financial services sectors
 - Individuals and entities involved in malicious cyberactivity toward the U.S.

Sanctions Compliance

- Criminal and civil penalties
- Reputational risks
- Strict liability
- “50 percent” rule

Due Diligence Questions

- Who in Russia is buying your product?
- If a company, who owns it? How much do they own?
- Where in Russia are they located?
- What will your customer do with your product/technology? Is your customer the final end-user, or an intermediary? Who's the end-user?
- Who are the individuals with whom you're dealing?
- When did you last check?

Federal Register Notices

- April 16, 2014
- May 1, 2014
- July 22, 2014
- August 6, 2014
- September 17, 2014
- January 29, 2015
- May 22, 2015
- August 7, 2015
- September 2, 2015
- December 28, 2015
- September 7, 2016
- December 27, 2016
- January 4, 2017
- June 22, 2017

New Sanctions? Public Law No: 115-44

- The “**Countering America’s Adversaries Through Sanctions Act.**”

<https://www.whitehouse.gov/legislation/hr-3364-countering-americas-adversaries-through-sanctions-act#toc-H3420FDCB95BC4483B63B45D6E38E3C66>.

- Reaffirms previous sanctions established under executive orders targeting the energy, defense, and finance sectors, as well as certain entities and individuals.
- Provides for the possibility of additional sanctions on Russian companies involved in certain transactions with the Russian defense or intelligence sectors, or with Russian energy export pipelines.
- Imposes tighter restrictions on equity or debt financing for the banking and energy sectors, and on participation in certain energy dependent projects worldwide where Russian companies have at least 33% interest.
- Provides for possibility of expanding sanctions to state-owned entities in the rail, metal, or mining sectors.

Resources for Exporters

- **The Office of Foreign Assets Control (OFAC)** is part of the Treasury Department and administers and enforces economic sanctions.
 - OFAC has created a Sanctions List Search application ("Sanctions List Search") to facilitate the use of the Specially Designated Nationals and Blocked Persons list ("SDN List") and all sanctions. <https://sanctionssearch.ofac.treas.gov/>
- **Bureau of Industry & Security (BIS)** manages controls on export of U.S. products in certain technology areas and to sectors or individuals that are subject to sanctions.
 - Exporters should always screen customers against the U.S. Govt.'s consolidated export screening list: (http://export.gov/ecr/eg_main_023148.asp). An interactive tool for searching this list based on entity name & address is available: <http://internationaltradeadministration.github.io/explorer/#/consolidated-screening-list-entries>
 - BIS Outreach and Educational Services Division: 202-482-4811

Commerce Department Resources

Offices in Washington, DC, in Russia, and in the states (including Minnesota)

1. Counseling & services to U.S. companies re: exporting in non-sanctioned areas of business
2. Advice on dealing with market obstacles
3. Channel for U.S. industry feedback/input into U.S. Government policy deliberations that impact U.S. exports and business

Contact Us:

In Washington, D.C.

Office of Russia, Ukraine and Eurasia

- **Matthew Edwards**, Director
Phone: 202-482-4365
Matthew.Edwards@trade.gov
- **Lola Gulomova**, Desk Officer
Phone: 202-482-2631
Lola.Gulomova@trade.gov
- **Robert Baker**, Desk Officer
Phone: 202-482-5536
Robert.Baker@trade.gov

in Russia

U.S. Commercial Service :

Office at U.S. Embassy in Moscow
Senior Commercial Officer **Michael Lally**
Phone: +7 (495) 728-5580
Fax: +7 (495) 728-5585
office.moscow@trade.gov

Office at U.S. Consulate in St. Petersburg
Principal Commercial Officer **Heather Byrnes**
Phone: +7 (812) 326-2560
Fax: +7 (812) 326-2561
Office.StPetersburg@trade.gov

Contact Us:

In Minnesota

330 Second Avenue South, Suite 410
Minneapolis, MN 55401
Phone: 612-348-1638
Email: Minneapolis@trade.gov

- **Ryan Kanne**, *Director*
Phone: 612-348-1637
ryan.kanne@trade.gov
- **Mathew Woodlee**, *Senior International Trade Specialist*
Phone: 612-348-1640
mathew.woodlee@trade.gov
- **David Edmiston**, *Senior International Trade Specialist*
Phone: 612-348-1644
David.Edmiston@trade.gov
- **Monica McFarlane**, *Senior International Trade Specialist*
Phone: 612-348-1643
Monica.McFarlane@trade.gov